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FINANCIAL ANALYSIS  
OF THE  
LEADING U.K. COMPOSITE INSURANCE COMPANIES  
FROM 1973 TO 1978

by

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## SUMMARY

Composite insurance companies are companies which transact all classes of general insurance business. Their activities moreover comprise life assurance other than industrial life assurance. In most cases, however, the life department is of small importance to the shareholder.

In this paper a comparative financial statements analysis is made of the seven leading composite insurance companies in the United Kingdom for the period 1973 - 1978.

Its main emphasis is on the analysis of their earnings, which are drawn from the following three sources :

- underwriting results,
- investment income,
- life profits.

The study clearly shows that out of these three main components, investment income is by far the most important one, from an absolute as well as from a relative point of view.

It thus points to the importance of a well-balanced and active investment policy for the results of a composite insurance company.

## CHAPTER I

### STATEMENT OF THE RESEARCH TOPIC

#### Importance of the Study

Most textbooks on financial statements analysis deal exclusively with the interpretation and analysis of the accounts of commercial and industrial companies and most strikingly neglect the analysis of the financial statements of e.g. banks and insurance companies.

The financial statements of the latter institutions are usually dealt with in books that are specialized in bank, respectively insurance accounting, the approach in that case being consequently a mainly or even exclusively accounting one.

A further comparison of the publications on bank accounting on the one hand and on insurance accounting on the other shows that the insurance sector is without doubt the "cinderella" of the two; the books on insurance accounting number only a very few indeed.

This paper precisely purports to present a tentative economic and financial analysis of a few selected insurance companies. Their annual accounts are the starting point of the study. The tendencies they show are subsequently interpreted in the light of economic, financial and insurance phenomena in the period under study. This way an insight is provided in the factors that for that period have had a bearing on their development in general and on the evolution of their revenue more in particular.

As the United Kingdom is still considered to be the country with the highest developed insurance industry and as the annual reports and accounts being published by the British insurance companies do provide the information required to make a meaningful analysis, it was decided to write in this paper about the U.K. insurance industry.

Because this industry is by no means homogeneous and as the purpose was to make a comparative analysis among a few companies, some preliminary research had to be made into the structure of the U.K. industry in order to be able to select a sample of companies being at least comparable in the type of activities they transact.

The segment of the industry offering such opportunities for comparison was found to be the composite insurance sector. It encompasses seven leading companies, which are, in alphabetical order :

- Commercial Union Assurance Company Limited
- Eagle Star Insurance Company Limited
- General Accident Fire and Life Assurance Corporation Limited
- Guardian Royal Exchange Assurance Limited
- Phoenix Assurance Company Limited
- Royal Insurance Company Limited
- Sun Alliance and London Insurance Limited

These companies transact all classes of general insurance business. Their activities moreover comprise all life assurance other than industrial life assurance. In most cases, however, their life department is of small importance in comparison with their general insurance activities. They are all limited, publicly quoted companies.

The latest annual reports being available at the time of writing (December 1979 — March 1980) were those for 1978. As the study had to cover a certain number of years in order to be representative and to provide a well-balanced insight, the period 1973 - 1978 was finally selected.

#### **Method of Research**

The financial data for this analysis are mainly drawn from the accounts of the selected composites as given in their annual company reports for the period 1973 - 1978.

Although the published financial statements essentially follow the same basic pattern, there are nevertheless inevitably some differences in presentation among the companies and in some cases even in the same company from one year to the next. Consequently a format had to be designed and some data of the revenue accounts and balance sheets had to be reclassified and presented in accordance herewith in order to improve the comparability of the data.

For the comments on these figures extensive use was made of the information contained in the annual reports of the insurance companies themselves. The specialized reports which are regularly published about the composite insurance sector by a few reputed brokerage firms moreover provided extremely valuable information about the sector in general and the individual composites in particular.

#### **Boundaries of the Study**

This report is mainly a summary of the major factors that influenced the U.K. composite insurance industry in the period 1973 - 1978. No attempt has been made to make either short-term or long-term projections.

The study more specifically delves into the main causes underlying the evolution of the revenue components of the individual composites and of the sector as a whole. Its emphasis is thus mainly on the earnings side.

### **Conclusion**

The analysis clearly shows that out of the three main components of the total earnings of a composite insurance company — underwriting results, investment income and life profits — investment income is the most important one, from an absolute as well as from a relative point of view. Hence the importance of a well-balanced and active investment policy, to be carried out by an efficiently functioning investment department, for the results of a composite insurance company.

## **CHAPTER II**

### **PREMIUM INCOME**

#### **Geographical Distribution of Premium Income**

##### **International Orientation of the U.K. Insurance Industry**

Historically, the British insurance industry has been uniquely international in the spread of its business.

Parallel with the growth in the U.K. overseas trade and the insurance needs resulting therefrom British insurers initiated and developed from the very early days of their lives activities in other parts of the world through subsidiary companies, branches and agencies. The international orientation of the U.K. insurance industry is particularly pronounced in the "general business" or "non-life" field, where "nearly 60 % of the premium income of the British insurance companies and their subsidiaries relates to policyholders outside the U.K." (1). As far as "long-term business" or "life assurance" is concerned, the activities of the companies are predominantly U.K.-oriented although some have established branches overseas, e.g. in Canada.

In addition to the U.K. companies' business overseas there is the "London insurance market". This is a market for overseas business — both marine and non-marine — written in London by U.K. insurance companies, Lloyd's underwriters and foreign insurance companies represented in London. "Because of the range of insurance services and expertise available in London the risks written in this way are generally the most complex. Major engineering and construction risks, particularly in the developing countries, will often be insured in London. Reinsurances from most countries including China and the Soviet Bloc are placed in London" (2).

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(1) British Insurance Association, First Stage Evidence to the Committee to Review the Functioning of Financial Institutions, June 1977, p. 5.

(2) British Insurance Association, p. 6.

Despite the exceptional difficulties the British economy has experienced in the last decennium and particularly in 1974, London has, thanks to the two-fold nature of the U.K. insurance companies' international activities referred to above, retained its international position whereby it is regarded as the world's leading insurance centre. The industry as a whole has thus continued to make a substantial contribution to the U.K. "invisible exports"; in 1978 this amounted to £970m, i.e. 42 % of invisible earnings (3).

#### International Orientation of the U.K. Composite Insurance Companies

##### Composite Insurance Group

The international orientation of the composite insurance companies taken as a group, is highlighted in the following table which gives the percentage geographical distribution of the non-life premium income for 1973 and 1978.

**Table 1 : Geographical Distribution on the Non-Life Premium Income of the Composite Insurance Group in 1973 and 1978.**

	1973 %	1978 %
<b>Fire and Accident</b>		
U.K.	31	31
U.S.	28	26
Canada	7	8
Europe	11	12
Elsewhere	15	16
<b>Marine and Aviation</b>	<u>8</u>	<u>7</u>
	100	100

Source : Wood, Mackenzie & Co., Composite Insurance Annual Reviews, September 1974 and August 1979.

The group derived only 31 % of its 1978 non-life premium income from its U.K. activities, whereas 34 % originated in North America (U.S. 26 % and Canada 8 % respectively) and 12 % in Europe.

The sector's 1978 geographical distribution of premium income shows little change as compared with 1973. Whereas the U.K. 1978 proportion is the same as in 1973, the U.S. percentage has dropped from 28 % to 26 %, owing partly to the loss of market share of the British companies. Both Canada and Europe have increased in relative importance.

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(3) British Insurance Association, Facts and Figures 1978, p. 19.

### Individual Composite Insurance Companies

Table 2 overleaf shows that the individual composite insurance companies are characterized by substantial differences in their geographical premium distribution.

The percentages for 1978 show that five companies have a greater than average involvement in the U.K.:

— Eagle Star	60 %
— Sun Alliance and London	46 %
— General Accident	40 %
— Phoenix	37 %
— Guardian Royal Exchange	32 %

The companies having a higher than average U.S. orientation are on the other hand:

— Royal	38 %
— Commercial Union	37 %
— General Accident	35 %

These are also the three companies with the highest overall market share in 1978: Royal (24.9 %), Commercial Union (22.4 %) and General Accident (15.2 %).

Royal, deriving 17 % of its premium income from Canada, is even that country's largest non-life insurance company. At the same time it is the only composite deriving more than 50 % of its premium income from North America (55 % in 1978).

Guardian Royal Exchange (20 %), Phoenix (17 %) and Sun Alliance and London (17 %) have important commitments in Europe; Commercial Union's involvement in this region (13 %) is also noteworthy.

Phoenix (12 %), Sun Alliance and London (11 %) and Guardian Royal Exchange (10 %) appear further to have above-average weightings in marine and aviation business.

In comparing the 1978 percentages with the 1973 figures the following changes deserve to be noted.

Some companies have increased their U.K. involvement:

— Phoenix	+ 12 %
— Royal	+ 3 %
— General Accident	+ 3 %

whereas the relative importance of the U.K. business of others has declined in this period:

— Eagle Star	— 7 %
— Commercial	— 6 %
— Guardian Royal Exchange	— 5 %

**Table 2 : Geographical Distribution of Non-Life Premium Income of the Individual Composite Insurance Companies in 1973 and 1978.**

Composite Insurance Companies	Fire and Accident					Marine and Aviation	Total
	U.K. %	U.S. %	Canada %	Europe %	Elsewhere %	%	
<b>Commercial Union</b>							
1973	23	38	5	14	13	7	100
1978	17	37	6	13	21 (*)	6	100
<b>Eagle Star</b>							
1973	67	2	3	4	15	9	100
1978	60	1	-	8	25 (*)	6	100
<b>General Accident</b>							
1973	37	38	6	6	10	3	100
1978	40	35	6	7	9 (*)	3	100
<b>Guardian Royal Exchange</b>							
1973	37	1	9	21	20	12	100
1978	32	2	7	20	29	10	100
<b>Phoenix</b>							
1973	25	19	6	15	22	13	100
1978	37	18	5	17	11	12	100
<b>Royal</b>							
1973	19	42	11	7	15	6	100
1978	22	38	17	9	9 (*)	5	100
<b>Sun Alliance and London</b>							
1973	47	12	5	11	13	12	100
1978	46	11	3	17	12	11	100

(\*) Includes Reinsurance

Source : Wood, Mackenzie & Co., Composite Insurance Annual Reviews, September 1974 and August 1979.



With regard to the U.S. orientation of the companies concerned, the decline of Royal's and General Accident's involvement with 4 % and 3 % respectively merits special mentioning; it will further be noticed that the other companies have also receded with 1 % each, Guardian Royal Exchange being the only exception in this respect.

While Royal and Commercial Union have strengthened their Canadian involvement with 6 % and 1 % respectively, the others have diminished the relative weighting of their Canadian business, with the exception of General Accident.

As far as Europe is concerned, five companies out of the seven have increased their relative commitments in this region :

— Sun Alliance and London	+ 6 %
— Eagle Star	+ 4 %
— Royal	+ 2 %
— Phoenix	+ 2 %
— General Accident	+ 1 %

Only Guardian Royal Exchange and Commercial Union have suffered a decline of 1 % each.

It may finally be noted that the three companies with above-average weightings in marine and aviation business have all three diminished the relative importance of this account.

### Distribution of Premium Income over the Major Lines of Insurance

The individual composites are not only characterized by substantial differences in their geographical premium distribution, but also by major differences in business emphasis as will be apparent from the study of Tables 3 and 4, which give the percentage distribution of premium income over the major lines of insurance for :

- U.K. premium income (Table 3)
- U.S. premium income (Table 4)

### Distribution of U.K. Premium Income

The seven companies display markedly different U.K. business profiles as highlighted in Table 3.

General Accident is most heavily involved in **motor** business (50 % of its 1978 premium income), followed by Guardian Royal Exchange (40 %), Phoenix (39 %) and Eagle Star (34 %).

Sun Alliance and London and Royal are primarily **property** insurance companies deriving respectively 53 % and 46 % of their premium income from this line. They are followed at a certain distance by Guardian Royal Exchange (34 %), Commercial Union (33 %) and General Accident (31 %).

Compared with the other companies, Eagle Star is notably overweight in **liability** business (26 %), while Phoenix and Commercial Union have an above-average involvement in **marine and aviation business**, with 18 % and 14 % of their premium income in 1978 respectively.

In comparing the 1978 percentages with the 1973 figures the following changes deserve special notice.

Phoenix and Royal have increased in the U.K. their orientation towards **motor** business with 7 % and 5 % respectively.

Sun Alliance and London and Royal, the two companies which as indicated are primarily **property**-insurance-oriented, display in this period a sharply contrasting pattern, Sun Alliance and London increasing its relative premium income from this line by 5 %, Royal's proportion on the contrary falling with 5 %. Equally of note is the 4 % increase in this line for Guardian Royal Exchange, as well as the decrease with 3 % and 2 % for Phoenix and Commercial Union respectively.

**Table 3 : Distribution of U.K. Premium Income of the Individual Composite Insurance Companies over the Major Lines of Insurance in 1973 and 1978.**

	Motor	Property	Liability	Pecuniary Loss	Personal	Marine and Aviation	Reinsurance	Total
	%	%	%	%	%	%	%	
<b>Commercial Union</b>								
1973	23	35	16	6	3	15	2	100
1978	24	33	11	5	3	14	10	100
<b>Eagle Star</b>								
1973	33	27	21	3	1	10	5	100
1978	34	26	26	4	1	5	4	100
<b>General Accident</b>								
1973	51	32	5	4	2	6	-	100
1978	50	31	8	5	2	4	-	100
<b>Guardian Royal Exchange</b>								
1973	40	30	5	6	2	9	8	100
1978	40	34	10	6	1	8	1	100
<b>Phoenix</b>								
1973	32	26	8	6	2	22	4	100
1978	39	23	8	4	3	18	5	100
<b>Royal</b>								
1973	21	51	8	10	3	7	-	100
1978	26	46	12	7	2	6	1	100
<b>Sun Alliance and London</b>								
1973	17	48	11	6	4	14	-	100
1978	15	53	11	5	5	11	-	100

Source : Wood, Mackenzie & Co., Composite Insurance Annual Reviews, September 1974 and August 1979.

Most companies have increased their involvement in **liability business** :

— Eagle Star	+ 5 %
— Guardian Royal Exchange	+ 5 %
— Royal	+ 4 %
— General Accident	+ 3 %

whereas Commercial Union decreased the relative importance of this insurance line with 5 %.

As for the orientation towards **marine and aviation business** there has been an overall decline resulting in the following differences in 1978 as compared with 1973 :

— Eagle Star	— 5 %
— Phoenix	— 4 %
— Sun Alliance and London	— 3 %
— General Accident	— 2 %
— Commercial Union	— 1 %
— Guardian Royal Exchange	— 1 %
— Royal	— 1 %

#### Distribution of U.S. Premium Income

As Sun Alliance and London, Guardian Royal Exchange and Eagle Star have only a very modest U.S. involvement, the distribution of the U.S. premium income in Table 4 is limited to the data for the four other companies.

As in the U.K., General Accident is in the U.S. most heavily involved in the **auto insurance business** (50 % of its 1978 premium income), followed by Commercial Union (35 %), Phoenix (30 %) and Royal (28 %).

Royal derives 39 % of its U.S. premium income from **property insurance**, whereas the other companies account for the following percentages in this line of business :

— General Accident	32 %
— Phoenix	29 %
— Commercial Union	27 %

The changes in the general pattern in 1978 as compared with 1973 are generally rather modest with the exception of Royal which has significantly increased its **property** weighting in this period (+ 7 %), while reducing its exposure in the other lines e.g. in **auto** (— 2 %), whereas the other three companies increased their auto-portfolio with 2 % each.

**Table 4 : Distribution of U.S. Premium Income of some Individual Composite Insurance Companies over the Major Lines of Insurance in 1973 and 1978**

<b>Composite insurance companies</b>	<b>Auto</b>	<b>Property</b>	<b>Workmen's Compensation</b>	<b>Liability</b>	<b>Accident and Health</b>	<b>Marine and Aviation</b>	<b>Other</b>	<b>Total</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	
<b>Commercial Union</b>								
1973	33	28	18	9	1	6	5	100
1978	35	27	20	10	1	5	2	100
<b>General Accident</b>								
1973	48	34	9	5	1	3	-	100
1978	50	32	9	6	1	2	-	100
<b>Phoenix</b>								
1973	28	30	14	7	6	11	4	100
1978	30	29	14	8	5	10	4	100
<b>Royal</b>								
1973	30	32	17	11	1	7	2	100
1978	28	39	16	9	-	6	2	100

Source : Wood, Mackenzie & Co., Composite Insurance Annual Reviews, September 1974 and August 1979.

### Growth and Relative Size

Table 5 shows the evolution of non-life premium income in the period 1973 - 1978 for :

- the British Insurance Association (B.I.A.)
- the composite insurance group
- the individual composite insurance companies

The data in connexion with the relative size of the individual composite companies which have been calculated from these figures, are given in Table 6, whereas the respective growth rates calculated on the same basis are shown in Table 7.

From these tables the following inferences can be drawn :

1. The non-life premium income has increased in the period under study with the following factors :

— British Insurance Association	2.07
— Composite insurance group	1.99
— Commercial Union	1.71
— Eagle Star	2.29
— General Accident	2.23
— Guardian Royal Exchange	1.86
— Phoenix	2.09
— Royal	2.12
— Sun Alliance and London	1.99

It thus appears that the premium income of Eagle Star, General Accident, Royal and Phoenix has been characterized by an above-average increase in comparison with the coefficients derived for B.I.A. and the composites considered as a group. The factor obtained for Sun Alliance and London, although being smaller than the average increase for B.I.A., exactly matches the coefficient calculated for the composite insurance group, whereas Guardian Royal Exchange and particularly Commercial Union are the big losers in this respect with factors of 1.86 and 1.71 respectively. This tendency is confirmed by the yearly average increase percentages, calculated on a "simple" as well as on a "compound" basis, which are given in Table 7. At the same time this evolution has made itself felt in the relative size of the individual composite companies, where, as is seen from Table 6 :

- Commercial Union and Guardian Royal Exchange have suffered substantial declines in their market share of 3.6 % and 0.9 % respectively as compared with 1973;
- Sun Alliance and London has been able to keep its relative size unchanged;
- the other companies have succeeded in expanding their market share;

It may be emphasized in this connexion that the share of the composite insurance group as a percentage of the total non-life premium income of the B.I.A. taken as a whole has dropped from 73.4 % in 1973 to 70.5 % in 1978. The lost part has been snatched away by companies which, although being predominantly in life business, have made inroads in the non-life field, particularly in 1977 and 1978.

**Table 5 : Non-Life Premium Income of British Insurance Association, Composite Insurance Group and Individual Composite Insurance Companies 1973 - 1978 (£m).**

<b>Year</b>	<b>B.I.A.</b>	<b>Composite Insurance Group</b>	<b>Commercial Union</b>	<b>Eagle Star</b>	<b>General Accident</b>	<b>Guardian Royal Exchange</b>	<b>Phoenix</b>	<b>Royal</b>	<b>Sun Alliance and London</b>
1973	3,360	2,466.1	642.2	158.9	333.8	332.9	161.9	574.7	261.7
1974	3,858	2,818.4	766.4	176.1	372.8	368.5	174.5	663.9	296.2
1975	4,641	3,403.1	922.6	201.0	471.7	427.1	245.5	786.9	348.3
1976	6,043	4,429.4	1,148.9	258.2	620.3	560.7	323.4	1,091.8	426.1
1977	6,535	4,677.6	1,072.5	315.0	674.6	591.5	323.0	1,235.5	465.5
1978	6,962	4,908.5	1,100.7	363.9	745.8	619.7	337.6	1,220.1	520.7

**Sources :**

- B.I.A., Facts and Figures, 1973 - 1978.
- Annual Reports of Individual Composite Insurance Companies, 1973 - 1978.

**Table 6 : Market Share of Individual Composite Insurance Companies as a Percentage of Non-Life Premium Income of Composite Insurance Group 1973 - 1978.**

<b>Year</b>	<b>Commercial Union</b>	<b>Eagle Star</b>	<b>General Accident</b>	<b>Guardian Royal Exchange</b>	<b>Phoenix</b>	<b>Royal</b>	<b>Sun Alliance and London</b>	<b>Total</b>
1973	26.0	6.5	13.5	13.5	6.6	23.3	10.6	100
1974	27.2	6.3	13.2	13.1	6.2	23.5	10.5	100
1975	27.1	5.9	13.9	12.6	7.2	23.1	10.2	100
1976	25.9	5.8	14.0	12.7	7.3	24.7	9.6	100
1977	22.9	6.7	14.4	12.7	6.9	26.4	10.0	100
1978	22.4	7.4	15.2	12.6	6.9	24.9	10.6	100
Change in market share 1978 vs 1973	- 3.6	+ 0.9	+ 1.7	- 0.9	+ 0.3	+ 1.6	-	-

Source : Figures derived from the data in the Annual Reports 1973 – 1978 of the Individual Composite Companies.



**Table 7 : Non-Life Premium Income Yearly Growth Rates of British Insurance Association, Composite Insurance Group and Individual Composite Insurance Companies 1973 - 1978 (%).**

<b>Year</b>	<b>B.I.A.</b>	<b>Composite Insurance Group</b>	<b>Commercial Union</b>	<b>Eagle Star</b>	<b>General Accident</b>	<b>Guardian Royal Exchange</b>	<b>Phoenix</b>	<b>Royal</b>	<b>Sun Alliance and London</b>
1973	17.4	16.4	13.2	26.7	15.6	19.3	18.4	14.1	19.8
1974	14.8	14.3	19.3	10.8	11.7	10.7	7.8	15.5	13.2
1975	20.3	20.8	20.4	14.1	26.5	15.9	40.7	18.5	17.6
1976	30.2	30.2	24.5	28.5	31.5	31.3	31.7	38.8	22.3
1977	8.1	5.6	— 6.7	22.0	8.8	5.5	— 0.1	13.2	9.3
1978	6.5	4.9	2.6	15.5	10.6	4.8	4.5	— 1.2	11.9
Yearly Average Increase 1973-1978									
— simple	21.4	19.8	14.3	25.8	24.7	17.2	21.7	22.5	19.8
— compound	16	15	11	18	17	13	16	16	15

Source : Figures derived from the data in the Annual Reports 1973-1978 of the Individual Composite Companies.

2. Royal and Commercial Union are by far the undisputed leaders in non-life business with a combined market share of 47.3 % in 1978 (49.3 % in 1973). In 1973 Commercial Union still had a 2.7 % lead over Royal in relative size. Commercial Union's share has, however, steadily declined since 1975, whereas Royal has scored important gains in 1976 and 1977, in which year it has become the first and has thus remained since notwithstanding a 1.5 % loss in its relative size in 1978.

General Accident and Guardian Royal Exchange had each a 13.5 % market share in 1973. After a decline in 1974, General Accident's share has risen steadily so as to reach 15.2 % in 1978, whereas Guardian Royal Exchange after losing 0.9 % over the years 1974 and 1975 combined has been unable to recoup this loss and had in 1978 still the same market share as in 1975.

Fifth in the series comes Sun Alliance and London, which experienced a 1 % fall in relative size in the period 1973 - 1976 but had by 1978 completely restored its market share to its 1973 level.

Eagle Star, while dropping from 6.5 % in 1973 to 5.8 % in 1976, subsequently not only recouped this loss but even succeeded in obtaining in 1978 a 7.4 % market share, i.e. + 0.9 % in comparison with 1973.

After an initial 0.4 % decline in 1974, Phoenix increased its share to 7.3 % in 1976 before leveling off to 6.9 % in 1977. By maintaining this percentage in 1978, Phoenix thus scored a 0.3 % gain since 1973.

3. One has to be very prudent in comparing successive yearly premium growth rates for the same company and particularly in making inter-company comparisons of growth rates for a certain year.

In doing so, various factors should indeed be taken into account, the most important being :

- rates of inflation;
- currency movements compared to sterling.

As both factors may differ and in fact do vary from country to country, comparisons among the individual composite companies are particularly complicated by the differences in the geographical spread of their premium income.

It is well known that the period being covered by this study has been characterized in most countries by extremely high inflation rates. As an illustration, Table 8 shows for the years 1973 - 1978 the inflation rates for the United Kingdom, the United States, Canada and West Germany.

**Table 8 : Inflation Rates in U.K., U.S., Canada and West Germany 1973 - 1978 (%)**

Year	U.K.	U.S.	Canada	West Germany
1973	9.2	6.2	7.6	6.9
1974	16.0	11.0	10.8	7.0
1975	24.2	9.1	10.8	6.0
1976	16.5	5.8	7.5	4.5
1977	15.9	6.5	8.0	3.9
1978	8.3	6.8	7.3	2.6

Source : Organization for Economic Co-operation and Development, Economic Surveys.

Changes from year to year must also be considered in conjunction with currency movements, especially as sterling has been particularly volatile over the period 1973 - 1978 as is brought out in Table 9.

**Table 9 : Currency Movements Compared with Sterling at Year-End 1973 - 1978**

Year	U.S. \$	C \$	Aus. \$	D-Mark
1973	2.32	2.31	1.56	6.28
1974	2.35	2.33	1.77	5.66
1975	2.02	2.06	1.60	5.30
1976	1.70	1.72	1.56	4.01
1977	1.92	2.11	1.67	4.03
1978	2.04	2.42	1.77	3.72

Source : Wood, Mackenzie & Co., Composite Insurance Annual Review, August 1979, p. 9.

The quinquennium considered here falls clearly into two periods :

- the period until 1976 which has been characterized by a general and pronounced weakening of sterling;
- the years 1977 and 1978 in which sterling has strengthened compared with U.S. \$, C \$ and Aus.\$, but weakened further compared with the D-mark in 1978.

To illustrate to what extent the real growth rates may, owing to currency movements compared to sterling, be masked by the growth rates calculated on the premiums in sterling terms, a few quotations are taken from annual reports of Commercial Union and Royal which, as indicated earlier, are the most internationally-oriented composite insurance companies.

— Commercial Union

"World-wide non-life premium income in sterling terms showed a reduction of 7 % (cfr. — 6.7 % in Table 7). If the rates of exchange prevailing at 31 December 1977 had applied in 1976, the premium income in that year would have been reduced by £92m. After allowing for this reduction and the effect of the sale of our Austrian and German companies during 1977, the growth in premium income was approximately 6 %" (4).

"World-wide non-life premium income showed only a very small increase in sterling terms (cfr. + 2.6 % in Table 7) but after allowing for the effect of changes in rates of exchange, there was a growth in premium income of 5.5 %" (5).

— Royal

"Premium income from our general insurance business amounted to £1,220.1m (1977 £1,235.5m), a decrease of 1.2 %. The appreciation of sterling had a significant effect; if 1977 rates of exchange had continued to apply, the 1978 premium income would have been £89m higher in sterling terms. The total was also reduced to a minor extent by the changes we have made in our accounting procedures, particularly in reinsurance. If allowance is made for these various effects, there was an underlying increase of 6.8 %" (6).

In a period characterized by sterling appreciation compared to e.g. the U.S. \$, the premium income originating from the U.S. is decreased when expressed in sterling terms. The reverse is true in a period marked by the depreciation of sterling compared to other currencies, as e.g. the U.S. \$; this was especially the case in the years 1975 and 1976.

The yearly premium growth rates may also be influenced by the acquisition and/or sale of subsidiaries. On 1st September 1973 Commercial Union acquired e.g. Delta-Lloyd, the second largest composite insurance group in the Netherlands. If the premium income of Delta-Lloyd is included in the 1973 and 1974 figures of Commercial Union, the latter's growth rate for those years is 13.2 % and 19.3 % respectively as in Table 7; when excluded, however, the 1973 and 1974 growth rates are only 9.8 % and 12.5 %.

The acquisition of The Century Insurance Company Ltd and its subsidiaries on 31st December 1974 by Phoenix boosted the latter's premium income to such extent that if included in Phoenix's 1975 premium income the 1975 growth rate is 40.7 % as in Table 7; when excluded, however, the 1975 growth rate is only 16.0 %.

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(4) Commercial Union, Annual Report 1977, p. 5.

(5) Commercial Union, Annual Report 1978, p. 5.

(6) Royal, Annual Report 1978, p. 8.

## CHAPTER III

### UNDERWRITING RESULTS

The most relevant data for the analysis of the underwriting results have been summarized in Tables 10, 11 and 12.

- Table 10 A presents the underwriting results in absolute amounts, whereas Table 10 B provides the corresponding underwriting margins.
- The "loss ratios", "expense ratios" and "combined loss and expense ratios" are given in Tables 11 A, 11 B and 11 C.
- Table 12 gives a territorial breakdown of the underwriting results.

#### Evolution of Underwriting Results and Underwriting Margins

1. Table 10 A shows that the group of the seven leading composite insurance companies has incurred a total underwriting loss of £400.8m in the period 1973 - 1978. In 1973 there was still an underwriting profit, be it a marginal one (£7.4m). Underwriting deteriorated further in 1974, resulting in a loss of £94.6m. The highest-ever underwriting loss was incurred in 1975 (£164.6m). The 1976 results marked an improvement in comparison with the 1975 nadir, but still showed a heavy loss (£124.8m), that declined further in 1977 (£30.7m). For the first time since 1973, the 1978 underwriting result was again modestly positive (£6.5m).

It will be noticed that, although each of the seven companies shows a cumulative underwriting loss over the period 1973 - 1978, there are nevertheless striking differences between them.

Commercial Union at one end had the worst result, its underwriting loss amounting to 48.1 % of the composite sector aggregate underwriting loss, whereas Guardian Royal Exchange at the other end nearly broke even over the same period.

Eagle Star, Royal and General Accident incurred sizeable cumulative losses of £58.0m, £54.5m and £50.4m respectively, while Phoenix and Sun Alliance and London showed over the same period losses of £28.6m and £14.4m respectively.

**Table 10 A : Underwriting Results 1973 - 1978 (£m).**

<b>Year</b>	<b>Composite Insurance Group</b>	<b>Commercial Union</b>	<b>Eagle Star</b>	<b>General Accident</b>	<b>Guardian Royal Exchange</b>	<b>Phoenix</b>	<b>Royal</b>	<b>Sun Alliance and London</b>
1973	7.4	(5.5)	(3.2)	11.6	1.3	1.9	(5.0)	6.3
1974	(94.6)	(15.4)	(5.8)	(13.5)	(7.5)	(7.2)	(39.8)	(5.4)
1975	(164.6)	(94.1)	(6.2)	(25.7)	2.1	(7.8)	(32.4)	(0.5)
1976	(124.8)	(59.8)	(12.9)	(17.6)	3.8	(9.5)	(17.8)	(11.0)
1977	(30.7)	(20.9)	(11.2)	(6.3)	(6.6)	(1.9)	15.1	1.1
1978	6.5	2.9	(18.7)	1.1	4.8	(4.1)	25.4	(4.9)
<b>Cumulative Underwriting Result 1973-1978</b>	<b>(400.8)</b>	<b>(192.8)</b>	<b>(58.0)</b>	<b>(50.4)</b>	<b>(2.1)</b>	<b>(28.6)</b>	<b>(54.5)</b>	<b>(14.4)</b>

Source : Annual Reports of the Individual Composite Companies, 1973-1978.

2. The same general tendency is confirmed by the information provided in table 10 B. The underwriting margin for the composite insurance sector, being slightly positive in 1973 (+ 0.30 %), deteriorated sharply in 1974 (— 3.36 %) and even further in 1975 (— 4.84 %) when the lowest point of the cycle was reached. It recovered in 1976 (— 2.82 %), improved further in 1977 (— 0.66 %) and went just above break-even in 1978 (+ 0.13 %).

As can be seen from the same table, the following companies had over the period a better-than-average relative underwriting performance for the sector : Guardian Royal Exchange (— 0.07 %), Sun Alliance and London (— 0.62 %), Royal (— 0.98 %) and General Accident (— 1.57 %). Eagle Star (— 3.94 %), Commercial Union (— 3.41 %) and Phoenix (— 1.83 %) on the contrary underperformed the sector in this respect.

Although the general picture is very clouded indeed, some of the companies performed at times most badly and even dramatically. The reader will particularly notice e.g. the following negative underwriting margins :

- Commercial Union : 10.20 % in 1975 and 5.20 % in 1976
- Eagle Star : 5.00 % in 1976 and 5.14 % in 1978
- General Accident : 5.45 % in 1975
- Phoenix : 4.13 % in 1974
- Royal : 5.99 % in 1974 and 4.12 % in 1975.

**Table 10 B : Underwriting Margins 1973 - 1978 (%).**

<b>Year</b>	<b>Composite Insurance Group</b>	<b>Commercial Union</b>	<b>Eagle Star</b>	<b>General Accident</b>	<b>Guardian Royal Exchange</b>	<b>Phoenix</b>	<b>Royal</b>	<b>Sun Alliance and London</b>
1973	0.30	(0.86)	(2.01)	3.48	0.39	1.17	(0.87)	2.41
1974	(3.36)	(2.01)	(3.29)	(3.62)	(2.04)	(4.13)	(5.99)	(1.82)
1975	(4.84)	(10.20)	(3.08)	(5.45)	0.49	(3.18)	(4.12)	(0.14)
1976	(2.82)	(5.20)	(5.00)	(2.84)	0.68	(2.94)	(1.63)	(2.58)
1977	(0.66)	(1.95)	(3.56)	(0.93)	(1.12)	(0.59)	1.22	0.24
1978	0.13	0.26	(5.14)	0.15	0.77	(1.21)	2.08	(0.94)
<b>Average Underwriting Margin</b>								
1973-1978	(1.77)	(3.41)	(3.94)	(1.57)	(0.07)	(1.83)	(0.98)	(0.62)

Source : Figures derived from the data in the Annual Reports 1973 - 1978 of the Individual Composite Companies.



### Loss and Expense Ratios

In analysing and comparing the underwriting performance of insurance companies, ratios may also usefully be computed to bring some basic tendencies to light. The ratios generally used in this respect are the loss and the expense ratio, the former expressing the year's claims as a percentage of the premiums earned during that year, whereas the latter expresses the year's expenses and commission as a percentage of the written premiums. These data are given in Tables 11 A and 11 B, whereas Table 11 C provides the figures of the combined loss and expense ratio, the latter being merely, as the term implies, an addition of both.

1. It will be seen from Table 11 A that General Accident and Commercial Union, with 70.1 % and 70.0 % respectively, had for the period 1973 - 1978 a substantially higher loss ratio than the average figure for the sector (68.8 %). Phoenix (68.9 %), Royal (68.6 %) and Guardian Royal Exchange (68.6 %) were very close to the average, whereas Eagle Star (67.8 %) and particularly Sun Alliance and London (64.5 %) showed the best relative performance over the period in this respect.

It will further be noticed that 1974 and 1975 show the worst loss ratios for the group; there was, however, a substantial improvement in 1976 (— 1.6 %), 1977 (— 2.1 %) and 1978 (0.9 %). The 1978 loss ratio for the sector as a whole compared favourably with the corresponding ratio for 1973 (— 0.5 %).

2. The study of Table 11 B makes it clear that with regard to the expense ratios, Sun Alliance and London (34.7 %), Eagle Star (34.5 %) and Commercial Union (33.2 %) performed on average worse than the sector. Phoenix (32.0 %) and Royal (31.9 %) were again very close to the average for the group (32.2 %), whereas General Accident (29.9 %) and Guardian Royal Exchange (30.6 %) showed the best average performance in this respect.

The years 1974 and 1975 show again the worst ratios for the sector; there was an improvement in 1976 and a stabilization in 1977 whereas 1978 marked a slight deterioration. The 1978 expense ratios exceeded in general the corresponding 1973 ratios for the sector as well as for the individual companies, with the exception of General Accident and Eagle Star which scored gains of 1.3 % and 0.6 % in comparison with their respective 1973 figures.

Note : The combined loss and expense ratios are summarized in Table 11 C.

Table 11 A : Loss Ratios (Fire and Accident Accounts) 1973 - 1978 (%).

Year	Composite Insurance Group	Commercial Union	Eagle Star	General Accident	Guardian Royal Exchange (*)	Phoenix	Royal (*)	Sun Alliance and London
1973	67.2	68.7	66.1	64.2	69.4	66.5	68.5	62.4
1974	70.1	68.4	67.7	71.9	71.2	71.7	72.2	66.2
1975	71.3	76.2	65.8	74.0	66.9	68.5	71.7	63.5
1976	69.7	72.1	67.5	71.4	68.6	70.6	69.2	66.6
1977	67.6	68.5	68.6	70.2	69.2	68.1	65.8	63.4
1978	66.7	66.0	71.0	69.1	68.1	67.9	64.4	65.1
Average Loss Ratio								
1973-1978	68.8	70.0	67.8	70.1	68.6	68.9	68.6	64.5

(\*) Includes Marine

Source : Rowe & Pitman, Insurance Shares, 1973 - 1978.

Table 11 B : Expense Ratios (Fire and Accident Accounts) 1973 - 1978 (%).

Year	Composite Insurance Group	Commercial Union	Eagle Star	General Accident	Guardian Royal Exchange (*)	Phoenix	Royal (*)	Sun Alliance and London
1973	31.6	32.0	33.6	30.6	29.7	31.6	31.4	33.8
1974	32.6	33.1	34.8	30.6	30.4	32.4	32.9	35.1
1975	32.5	33.7	36.4	30.0	31.5	33.7	31.6	35.0
1976	32.0	33.1	35.4	29.7	31.2	31.4	30.9	34.9
1977	32.0	33.5	33.5	29.2	30.6	30.9	31.8	34.9
1978	32.2	33.7	33.0	29.3	30.2	31.9	32.6	34.7
Average Ex- penditure Ratio 1973-1978	32.2	33.2	34.5	29.9	30.6	32.0	31.9	34.7

(\*) includes Marine

Source : Rowe & Pitman, Insurance Shares, 1973 - 1978.

Table 11 C : Combined Loss and Expense Ratios (Fire and Accident Accounts) 1973 - 1978 (%).

Year	Compassite Insurance Group	Commercial Union	Eagle Star	General Accident	Guardian Royal Exchange (*)	Phoenix	Royal (*)	Sun Alliance and London
1973	98.0	100.7	99.7	94.5	99.1	98.1	99.9	99.2
1974	102.7	101.5	102.9	102.5	101.6	104.1	105.1	101.3
1975	103.2	100.9	102.2	104.0	99.4	102.2	103.3	99.5
1976	101.7	105.2	102.9	101.1	97.6	102.0	100.1	101.5
1977	99.6	102.0	102.1	99.4	99.8	99.0	97.6	99.3
1978	98.9	99.7	104.0	98.4	99.3	99.0	97.0	99.8
Average Combined Loss and Expense Ratio 1973-1978	101.0	103.2	102.3	100.0	99.2	100.9	100.5	99.2

(\*) includes Marine

Source : Rowe & Pitman, Insured Shares, 1973 - 1978.

## Territorial Underwriting Results

The geographical premium income distribution and the relative involvement in the various lines of insurance are major factors in interpreting the inter-company differences in underwriting performance in the period 1973 - 1978.

To facilitate the analysis of the underwriting results as summarized in Table 10 A, a territorial breakdown of these is presented in Table 12 A, 12 B, 12 C and 12 D providing a subdivision of the available data for :

- U.K. and Eire (Table 12 A)
- U.S. (Table 12 B)
- Canada (Table 12 C)
- Rest of World (Table 12 D)

The examination that follows will in conformity with this breakdown proceed per territory.

### U.K. and Eire

When studying the underwriting results in the U.K. and Eire and particularly when comparing them with those of the two other major territories and with those of the group "Rest of the World" as well (cfr. Tables 12 B, 12 C and 12 D), the reader cannot but endorse the view expressed by Wood, Mackenzie & Co. where they state : "Paradoxically, despite its higher inflation and lower growth, the U.K. has been one of the more satisfactory territories for the insurance companies" (1). The U.K. was in the period under review indeed the only major territory to show a modest cumulative profit of £6.3m for the composite insurance sector as a whole.

Royal presents the best U.K. record totalling over the six-year period an underwriting profit of £34.6m. This is to a large extent connected with Royal's orientation in the U.K. towards property business which was profitable over the period. It will be noticed that Royal scored a positive result in each year except in 1976. In that year, for the first time since 1969, Royal incurred a loss on its U.K. and Eire underwriting, albeit a small one of £0.1m. The annual report 1976 provides the following explanations for this result :

"The principal cause of the underwriting loss was the impact of the weather on our substantial householders' account, when profitability was already declining due to inflation and continuing under-insurance . . . The storms which swept the country in January 1976 brought claims of some £5m in respect of private house property. During the year subsidence, due mainly to soil shrinkage following two exceptionally dry summers, brought further claims amounting to £7.5m . . ." (2).

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(1) Wood, Mackenzie & Co., Composite Insurance Annual Review, July 1976, p. 4.

(2) Royal, Annual Report 1976, p. 10.

**Table 12 A : Underwriting Results in U.K. and Eire 1973 - 1978 (£m).**

Year	Composite Insurance Group	Commercial Union	Eagle Star (*)	General Accident	Guardian Royal Exchange	Phoenix (*)	Royal	Sun Alliance and London
1973	27.0	4.0	(0.2)	4.6	4.0	2.2	5.4	7.0
1974	16.6	12.3	(2.8)	(1.6)	2.5	(1.8)	3.5	4.5
1975	10.1	10.0	(4.2)	(10.7)	7.5	(0.1)	3.6	4.0
1976	(31.7)	(11.7)	(7.9)	(4.0)	4.4	(2.6)	(0.1)	(9.8)
1977	(22.4)	(11.9)	(9.0)	(4.2)	(6.6)	(4.1)	10.3	3.1
1978	6.7	17.5	(15.6)	(2.2)	5.4	(5.7)	11.9	(4.6)
	<hr/> 6.3	<hr/> 20.2	<hr/> (39.7)	<hr/> (18.1)	<hr/> 17.2	<hr/> (12.1)	<hr/> 34.6	<hr/> 4.2

(\*) Pension charges etc. are allocated to U.K.

Source : Wood, Mackenzie & Co., Composite Insurance Annual Reviews, 1973 - 1978.

This result should however be viewed and assessed in the light of the £41.8m downturn in the U.K. and Eire underwriting results of the composite insurance group, which was more than accounted for by the £55m claims arising from the exceptional weather conditions mentioned earlier. When thus put into perspective Royal's 1976 performance was a remarkable one in comparison with the other composites, Guardian Royal Exchange being the only one to record an underwriting profit that year.

Royal is followed by Commercial Union which shows an aggregate underwriting profit for the period of £20.2m. When studying Commercial Union's record it will be noticed that :

- in 1974 it was unique in achieving a significant overall improvement; this was largely the result of its efforts to rate-up and refine its sizeable liability portfolio;
- 1976 was characterized by a very marked deterioration, due to :
  - bad weather conditions (the estimated cost of claims relating to subsidence was over £4m);
  - underwriting losses in liability and motor insurance as a result of inflation and court awards;
  - a loss of £3.0m in the London marine and aviation business, due to intense competition, inadequate rates and inflated repair costs.
- 1977 showed nearly the same underwriting loss, once again largely due to :
  - claims for subsidence damage;
  - underwriting losses in liability and motor business;
  - a £1.9m loss in the London marine and aviation business;
  - a reinsurance loss of £2.3m.
- underwriting was restored to profitability in 1978, the improvement over the 1977 underwriting result amounting to £29.4m. The main factors accounting for this remarkable turnaround from a £11.9m underwriting loss into a £17.5m underwriting profit were the following :
  - the accident business showed a considerable improvement, partly due to the effect of the lower rate of inflation on the cost of claims;
  - the marine and aviation business written in the London market made an excellent profit of £5.1m compared with a loss of £1.9m for the previous year;
  - reinsurance business left a profit of £1.9m compared with a loss of £2.3m in 1977.

Guardian Royal Exchange comes next with an aggregate underwriting profit of £17.2m. As noted earlier Guardian was the only composite insurer to obtain an underwriting profit in 1976 notwithstanding the heavy January storms and the very severe drought experienced during the summer, resulting in heavy claims, mainly under personal insurance contracts. Guardian's 1976 annual report further mentions that "under public and employers' liability policies there has been an escalation in court awards, due to the increasing rate of inflation, which strongly affected this account" (3).

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(3) Guardian Royal Exchange, Annual Report 1976, p. 24.

Fortunate factors, however, were :

- its important involvement in the profitable property insurance line;
- a profit, albeit a small one, on its very large volume in the motor account;
- the ability to keep the percentage rate of the increase of expenses within the limits anticipated covered by the volume of written premiums.

1977 was the only year in which Guardian incurred an underwriting loss. Its annual report for that year provides the following explanatory comments for this deterioration (4) :

"There has been little real growth in the economy which has meant that only a modest amount of new business has been available in the United Kingdom, leading to increased competition and rate-cutting for the business on offer.

On our fire account we also suffered from the effect of the firemen's strike which caused a serious increase in the size of the losses of the fourth quarter . . .

We continue to write a substantial volume of motor business but the margin of profit is always likely to be limited . . .  
The greater concentration of traffic on the roads caused an increase in the claims frequency resulting in a loss on our motor underwriting.

. . . the difficulties of underwriting liability insurance of all types continue. Rates are seldom high enough when set against increased cost arising from inflation, which affected the level of all claim settlements. We continually have to set up higher provisions and I am sorry to record a substantial loss on this class".

Underwriting was restored to profitability in 1978. The annual report mentions more in particular that "the fire-account produced a worthwhile profit and that the accident department recovered well from the substantial loss in 1977 and was able to show a modest profit" (5). Further it points "to the difficulties to write our personal property account at a profit, partly because the average cost of settling claims went up by almost twice the rate of inflation and partly due to the reluctance of policy-holders to insure the full value of their possessions. The motor department was affected by a further increase in claims frequency and, despite increases in rates in April 1978, made a marginal loss" (5).

Sun Alliance and London is the fourth U.K. composite insurer to record an aggregate underwriting profit for the period (£4.2m). Positive underwriting results for 1973, 1974 and 1975 were followed by an exceptional underwriting loss in 1976 (£9.8m), largely caused by subsidence claims. The company returned to an underwriting profit in 1977 (£3.1m), but in 1978 it again showed an underwriting loss (£4.6m). Sun Alliance and London occupies a strong place in the market for personal insurance business, in which exceptionally bad weather can produce an exceptional number of claims. These are estimated to have cost the personal insurance account in 1978 an additional £7m.

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(4) Guardian Royal Exchange, Annual Report 1977, p. 24.

(5) Guardian Royal Exchange, Annual Report 1978, p. 4.



**Eagle Star** is the company which seems to have suffered worst during the six-year period, with an aggregate underwriting loss of £39.7m. It should be noted, however, that the above figure includes the contributions of the company to the staff pension funds and expenses not charged to other accounts amounting for the whole period to £29.4m. When deducting this amount from the previous figure, the underwriting loss is reduced to £10.3 m, whereas the yearly underwriting results may, in conformity herewith, be restated as follows (figures in £m) :

1973	:	2.0
1974	:	(0.3)
1975	:	(0.7)
1976	:	(2.2)
1977	:	(2.1)
1978	:	(7.0)

The figures show a gradual worsening over the period, culminating in a £7.0m underwriting loss in 1978. The annual report 1978 gives the following reasons for this deterioration (6) :

- "The 'all-in' account had another difficult year with a loss of £6.3m. At the end of 1978 we have made a substantial extra provision for unexpired risks to meet the cost of claims resulting from the severe weather in the early months of 1979 much of which inevitably falls on premiums written during 1978. The major problem of this account has, however, been under-insurance on that section concerning house buildings and contents.
- As in other classes, the motor insurance market has been very competitive in terms of price and remains so despite the generally unfavourable trends. In 1978 increasing claims frequency and increasing cost, above the general level of inflation, affected the result badly. The account showed a loss of £4.9m after making an additional provision for unexpired risks.
- There was an overall loss in the liability account of £1.0m arising from a loss on employers' liability and a profit on public liability".

On the other hand it is noted that :

"There was a satisfactory profit on the commercial and industrial fire account although national fire wastage increased and the market remained exceptionally competitive".

After the corrections which, for reasons of comparison, had to be made in Eagle Star's figures, **General Accident** shows the worst underwriting record with an aggregate loss of £18.1m. Reference is made here to General Accident's very heavy involvement in the motor business. As much as half of its U.K. premium income is in fact derived from this insurance line.

It will be seen that the company's underwriting record has gradually deteriorated culminating in a £10.7m loss in 1975. The annual report provides the following comments in this respect (7) :

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(6) Eagle Star, Annual Report 1978, p. 7.

(7) General Accident, Annual Report 1975, p. 23.

"Several major departments, particularly motor and liabilities, contributed (to this loss). The necessity to make full provision for anticipated inflation in reserving against outstanding claims continues adversely to affect our experience.

In the first half of 1975 we applied substantial increases in premium to all sections of the motor account and in the 4th quarter of the year there was evidence of an improving trend. Although the full benefit of these increases has yet to be realized a further increase was applied on 1st January 1976 for private cars and from 1st February 1976 for commercial vehicles.

In the interests of the motoring public it must be hoped that inflation will be brought under control and the premium rates stabilized.

The provisions for the outstanding claims in employers' liability and public liability business demand constant revision which is reflected in the continuing adverse experience.

In the case of employers' liability it is not only the effect of inflation which contributed to the loss. Changing attitudes in the interpretation of the law have led to greater onus being placed upon the employer when his employees are injured. Socially desirable this may be, but society should understand that here as elsewhere it must ultimately bear the cost.

Industrial fire produced a profit. However, personal lines continued to deteriorate during 1975 although we escaped major weather losses. Undoubtedly the main problem to be overcome is the under-insurance of private houses and their contents. Whilst claims costs increase with the reduction in the value of money, sums insured have not advanced at the same rate".

The year 1976 showed a substantial improvement over 1975, but produced nevertheless a loss of £4.0m. The Annual Report 1976 mentioned the following factors (8) :

- "The severe windstorm in January 1976 caused a loss to the property account of £4.3m, which fell largely on the householders' section, whereas the phenomenal drought of the summer months resulted in claims for damage to private houses from subsidence amounting to £4.6m.
- Quite apart from these exceptional losses there has been a general deterioration in the results from householders' business occasioned largely by our past failure to persuade policyholders to increase sums insured in line with inflated values.
- The industrial fire account again showed a satisfactory result.
- The motor account after many loss-making years, produced a marginal profit.
- In the accident classes, employers' liability and public liability business continue to present severe underwriting problems. Although premium rates have been raised substantially, the trend in court awards for personal injuries makes the assessment of rates especially difficult".

The 1977 underwriting loss (£4.2m) was similar to that of the previous year.

Several special factors influenced the result (9) :

- "The householders' section of the property account once again produced a substantial loss. The gradual improvement in this account which followed the severe weather losses of 1976 was reversed in the last quarter of 1977 by the effect of the storm and subsequent floods on the North West coast of England, which produced losses estimated at £1.4m.
- During the last few weeks of 1977, the property account as a whole was adversely affected by the firemen's strike . . . . Figures published by the British Insurance Association show that fire wastage in November and December was twice that of the corresponding months in 1976, and a similar picture has emerged for January 1978.
- Motor business produced a small loss despite an increase in the rates applied in February 1977. In addition to the inflation of car repair costs, there was an upward trend in the frequency of claims.
- The liability account still presents problems to the underwriter as court awards continue to rise . . .".

In 1978 the underwriting loss was reduced to £2.2m. The following comments are given in the annual report 1978 (10) :

- "The householders' account continues to present the greatest underwriting problems. Whilst much progress has been made in persuading the public to bring sums insured more into line with current values there is still a large measure of under-insurance. At the same time, the account has suffered from an unusual cycle of weather losses and an increasing frequency of claims.
- The motor account produced a loss in 1978".

Phoenix produced over the six-year period an aggregate underwriting loss of £12.1m. For reasons of comparison a total amount of £3.8m, representing expenses not charged to other accounts should be deducted, reducing thus the underwriting loss for the period to £8.3m. In accordance herewith, the underwriting results for each of the consecutive years may be restated as follows (figures in £m) :

1973	:	2.7
1974	:	(1.4)
1975	:	0.4
1976	:	(2.5)
1977	:	(3.2)
1978	:	(4.3)

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(9) General Accident, Annual Report 1977, p. 25.

(10) General Accident, Annual Report 1978, p. 24.

The gradual deterioration of this company's underwriting results, particularly since 1976, deserves special notice. Apart from the factors mentioned earlier, when discussing the underwriting results of the other composite insurers, it should be emphasized here that Phoenix has a very heavy involvement in marine and aviation business (22 % in 1973 and 18 % in 1978). Both insurance markets have been particularly difficult in the period under review, characterized as they have been by an excess of underwriting capacity and intense competition, resulting in price-cutting and underwriting losses.

#### U.S.

Whereas the U.K. produced in the period under review a modest cumulative profit of £6.3m, Table 12 B shows for the U.S. over the same years a staggering aggregate underwriting loss of £187.9m. Except for Guardian Royal Exchange which recorded a £1.4m profit, all composite companies incurred underwriting losses, some of those taking quite dramatic proportions as the following list indicates (figures in £m) :

— Commercial Union	98.2
— Royal	60.6
— General Accident	16.8
— Phoenix	8.0
— Sun Alliance and London	4.8
— Eagle Star	0.9

Commercial Union, Royal and General Accident totalled together as much as 93.5 % of the composite insurance group's cumulative underwriting loss.

It may be pointed out that as is evident from Table 12 B, the period 1973 - 1978 divides clearly into two parts :

- the plunge in 1973 - 75 to record loss levels;
- the subsequent recovery during 1976 - 78.

Wood, Mackenzie & Co. give three main causes for the spectacular downturn (11) :

- "The development of intense competition based on the profits of the early 1970's, the existence of very strong capital positions ('surplus surplus') and the enthusiasm for cash-flow theories.
- The unforeseen upturn in inflation rates, which exposed inadequate reserving.
- An adverse political, judicial and consumerist environment, which effectively transferred to the property/casualty industry some functions of a social welfare system by

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(11) Wood, Mackenzie & Co., Composite Insurance Annual Review, July 1978, p. 7.

**Table 12 B : Underwriting Results in U.S. 1973 - 1978 (£m).**

<b>Year</b>	<b>Composite Insurance Group</b>	<b>Commercial Union</b>	<b>Eagle Star</b>	<b>General Accident</b>	<b>Guardian Royal Exchange</b>	<b>Phoenix</b>	<b>Royal</b>	<b>Sun Alliance and London</b>
1973	7.7	0.6	—	7.9	—	0.2	(1.8)	0.8
1974	(43.1)	(7.9)	—	(2.1)	(0.2)	(2.2)	(27.2)	(3.5)
1975	(117.3)	(75.1)	—	(11.6)	(0.2)	(3.9)	(24.2)	(2.3)
1976	(66.5)	(26.8)	(1.3)	(12.3)	0.3	(5.8)	(18.1)	(2.5)
1977	2.0	3.3	0.3	(3.6)	0.3	1.3	0.2	0.2
1978	29.3	7.7	0.1	4.9	1.2	2.4	10.5	2.5
	<hr/> (187.9)	<hr/> (98.2)	<hr/> (0.9)	<hr/> (16.8)	<hr/> 1.4	<hr/> (8.0)	<hr/> (60.6)	<hr/> (4.8)

Source : Wood, Mackenzie & Co., Composite Insurance Annual Reviews, 1973-1978.

- (a) development of fair plans, assigned risk pools etc. with inherent subsidy of bad risks.
- (b) the refusal of the supervisory authorities to grant increases adequate to prevent the emergence of substantial losses.
- (c) the wider interpretation of liability — effectively, the retroactive revision of contracts — and an escalation of court awards, largely summed up in the term 'social inflation'".

On the other hand, Wood, Mackenzie and Co. mention as main factors contributing to the recovery in 1976 - 1978 (12) :

- "The reduction in inflation rates.
- Heavy underwriting losses and lower stockmarket levels threatened company solvency forcing managements to concentrate on profitability and encouraging a more rational approach to competition.
- A massive adjustment to the rating structure as regulators, faced with a potential host of insolvencies and a major problem of availability were forced to allow the companies to adjust their rates to higher emerging costs. Moreover, insurers moved rapidly to increase rates on the flashpoint liability lines to meet the threat posed by higher court awards and the wider interpretation of liability. Other underwriting measures have also been effective e.g. increased deductibles on auto lines brought about a significant decline in frequency last year".

These causes contributing to downturn and subsequent recovery have amply and repeatedly been stressed in the annual reports of the composite companies, as illustrated in the extracts which have been taken from the annual reports of Commercial Union, Royal and General Accident and are given in Appendix F, 1.

#### Canada

Table 12 C shows that for the period under review Canada showed an aggregate underwriting loss of £30.0m, the individual composite insurers contributing as follows to this result (figures in £m) :

— Royal	7.9
— Sun Alliance and London	7.2
— Commercial Union	4.2
— Guardian Royal Exchange	4.0
— General Accident	3.7
— Eagle Star	2.0
— Phoenix	1.9

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(12) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1978, p. 8.

**Table 12 C : Underwriting Results in Canada 1973 - 1978 (£m).**

<b>Year</b>	<b>Composite Insurance Group</b>	<b>Commercial Union</b>	<b>Eagle Star</b>	<b>General Accident</b>	<b>Guardian Royal Exchange</b>	<b>Phoenix</b>	<b>Royal</b>	<b>Sun Alliance and London</b>
1973	(10.3)	(0.4)	(1.0)	(0.3)	(1.8)	(1.6)	(3.7)	(1.5)
1974	(20.5)	(2.4)	(1.0)	(2.3)	(2.8)	(1.1)	(6.6)	(4.3)
1975	(11.1)	(1.9)	—	(1.6)	—	(0.6)	(5.0)	(2.0)
1976	(1.2)	0.3	—	(0.1)	0.2	0.3	(2.2)	0.3
1977	7.8	0.1	—	0.5	(0.4)	0.4	7.2	—
1978	4.4	0.1	—	0.1	0.8	0.7	2.4	0.3
	<u>(30.9)</u>	<u>(4.2)</u>	<u>(2.0)</u>	<u>(3.7)</u>	<u>(4.0)</u>	<u>(1.9)</u>	<u>(7.9)</u>	<u>(7.2)</u>

Source : Wood, Mackenzie & Co., Composite Insurance Annual Reviews, 1973 - 1978.

Wood, Mackenzie and Co. give the following reasons for the deterioration of the underwriting results in the period 1972 - 1974 (13) :

- "Canada is inherently a very competitive market, with a large number of companies competing for relatively small premium volume. This was aggravated in the early 70's by the expansionist policies of U.S. insurers on the back of good domestic results and strong capital positions.
- The imbalance between costs and revenues caused by the surge in inflation and inadequate rate increases.
- The nationalization of motor business in some provinces — Manitoba and British Columbia — resulting in intensified competition for remaining business".

The reasons for the subsequent upturn were similar to those in the U.S. (14) :

- a stabilization of inflation,
- a more realistic attitude towards competition,
- reduction in capacity,
- a substantial and sustained upward rating correction.

To illustrate these tendencies a series of extracts are quoted from the annual reports of Royal, Commercial Union and General Accident; they are given in Appendix F, 2.

#### Rest of World

The group "Rest of World" produced an overall underwriting loss of £188.3m. Table 12 D shows that all companies recorded losses and that Commercial Union even incurred a loss as big as £110.6m, representing 58.7 % of the composite insurance group's underwriting loss. Data available do not permit a very detailed breakdown of the results per territory.

From the published reports it is very clear, however, that **Australia** showed decidedly the worst performance, accounting e.g. for the following cumulative losses (figures in £m) :

— Commercial Union	39.9
— Royal	19.3

Wood, Mackenzie and Co. remark in this context (15) :

"Though detailed figures for Australia are not available, there is no doubt that the deterioration there over 1972 - 74 was even more serious than for Canada, with exceptionally severe losses amounting to 20 - 30 % of premium income in 1974. Once again the combination of escalation of inflation and

(13) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1978, p. 8.

(14) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1978, p. 10.

(15) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1978, p. 8.



**Table 12 D : Underwriting Results in Rest of World 1973 - 1978 (£m).**

<b>Year</b>	<b>Composite Insurance Group</b>	<b>Commercial Union</b>	<b>Eagle Star</b>	<b>General Accident</b>	<b>Guardian Royal Exchange</b>	<b>Phoenix</b>	<b>Royal</b>	<b>Sun Alliance and London</b>
1973	(17.0)	(9.7)	(2.0)	(0.6)	(0.9)	1.1	(4.9)	—
1974	(47.6)	(17.4)	(2.0)	(7.5)	(7.0)	(2.1)	(9.5)	(2.1)
1975	(46.3)	(27.1)	(2.0)	(1.8)	(5.2)	(3.2)	(6.8)	(0.2)
1976	(25.4)	(16.5)	(3.7)	(1.2)	(1.1)	(1.4)	2.6	1.0
1977	(18.1)	(17.5)	(2.5)	1.0	0.1	0.5	(2.6)	(2.2)
1978	(33.9)	(22.4)	(3.2)	(1.7)	(2.6)	(1.5)	0.6	(3.1)
	<u>(188.3)</u>	<u>(110.6)</u>	<u>(15.4)</u>	<u>(11.8)</u>	<u>(16.7)</u>	<u>(6.6)</u>	<u>(20.6)</u>	<u>(6.6)</u>

Source : Wood, Mackenzie & Co., Composite Insurance Annual Reviews, 1973 - 1978.

inadequate rates had dire consequences for profitability, aggravated by retroactive increases in workmen's compensation benefits and the final seal on appalling results was set by the major natural disasters of the Queensland floods and the Darwin (cyclone)".

The reasons for the upturn in Australia were similar to those in the U.S. (cfr. p. 37) and in Canada (cfr. p. 39).

In the light of what preceeds it seems most appropriate to confine the further analysis mainly to the study of the underwriting experience in Australia.

#### 1973 (16)

The seven companies lost very substantial amounts in Australia.

These were largely due to :

- retroactive increases in workmen's compensation benefits in a number of states;
- poor experience in the compulsory third-party motor accounts.

In most cases the underwriting losses were more than double the investment income earnings.

#### 1974 (17)

The major factor behind the £30.6m increase in "Rest of World" losses was

"another massive deterioration in Australian results, which for most companies produced losses in excess of 20 % of premiums. Inadequate motor and property rates and more retroactive increases in workmen's compensation benefits in a number of states were exacerbated by the major disasters of the Queensland floods in January and the Darwin cyclone in December".

#### 1975 (18)

The "Rest of World" sector produced a small reduction in overall underwriting losses in 1975 to £46.3m from £47.6m.

"The largest improvements were reported by General Accident, Guardian Royal Exchange, Royal Insurance and Sun Alliance and London and, in all cases, this was due to a much better outcome in Australia".

Commercial Union did not share in the improved trends in Australia, its losses even deteriorating there further to £15.3m from £10.0m in 1974, whilst its European operations produced another £8m deficit, the Netherlands accounting herein for £4.9m.

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(16) Wood, Mackenzie and Co., Composite Insurance Annual Review, September 1974, p. 7 and p. 32.

(17) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1975, p. 33.

(18) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1976, pp. 35-36.

**1976 (19)**

"In the absence of natural catastrophes, the underwriting measures adopted by the companies in Australia to counteract the major losses of 1974 - 75 resulted in a further substantial underwriting upturn in excess of £20m, with Commercial Union and Royal the major beneficiaries".

The former was able to reduce its £15.3m underwriting loss in 1975 to £4.7m in 1976, whereas the latter went from an underwriting loss of £4.3m in 1975 to a profit of £2.4m in 1976.

**1977 (20)**

"Following the debacle of 1974, Australian results have considerably improved, with most of the companies returned to profit. However, intense competition has again set in, particularly on the industrial fire account. Results are therefore expected to deteriorate".

**1978 (21)**

"The Australian market is currently characterized by intense, irresponsible competition and underwriting results are again deteriorating rapidly".

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(19) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1977, p. 27.

(20) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1978, p. 39.

(21) Wood, Mackenzie and Co., Composite Insurance Annual Review, August 1979, p. 36.

## CHAPTER IV

### INVESTMENT INCOME

This chapter is subdivided in the following points :

- General trend of investment income during 1973 - 1978 and underlying causes.
- Comparison of yearly growth rates between individual companies.
- Changes in distribution of funds over asset categories.
- Capital increases required by solvency margin obligations.
- Importance of investment income related to premium income, pre-tax profits and dividends.

#### General Trend during 1973 and Underlying Causes

Table 13 shows the evolution of gross investment income in the period 1973 - 1978, whereas Table 14 gives the yearly indices derived therefrom.

These data point to a remarkable upsurge of gross investment income in those years. Compared to 1973 it has indeed increased by the following coefficients :

— Composite insurance group	2.73
— Commercial Union	2.31
— Eagle Star	3.56
— General Accident	3.11
— Guardian Royal Exchange	2.37
— Phoenix	3.63
— Royal	2.79
— Sun Alliance and London	2.71

It thus appears that the coefficient for the group as a whole is as high as 2.73.

As for the individual companies :

- Phoenix, Eagle Star and General Accident have more than tripled their investment income over the period;

Table 13 : Gross Investment Income 1973 - 1978 (£m).

Year	Composite Insurance Group	Commercial Union	Eagle Star	General Accident	Guardian Royal Exchange	Phoenix	Royal	Sun Alliance and London
1973	220.2	62.1	17.2	28.4	32.6	13.0	44.8	22.1
1974	277.2	81.5	22.2	35.0	38.0	17.7	53.8	29.0
1975	343.9	99.9	27.1	42.3	49.2	26.1	64.8	34.5
1976	461.8	123.9	40.5	60.0	58.5	36.3	95.8	46.8
1977	526.7	127.7	47.8	75.3	65.3	41.6	116.0	53.0
1978	602.0	143.3	61.2	88.3	77.1	47.2	125.0	59.9

Source : Annual Reports of the Individual Composite Insurance Companies, 1973 - 1978.

Table 14 : Gross Investment Income Indices 1973 - 1978 (1973 = 100).

Year	Composite Insurance Group	Commercial Union	Eagle Star	General Accident	Guardian Royal Exchange	Phoenix	Royal	Sun Alliance and London
1974	125.9	131.2	129.1	123.2	116.6	136.2	120.1	131.2
1975	156.2	160.9	157.6	148.9	150.9	200.8	144.6	156.1
1976	209.7	199.5	235.5	211.3	179.5	279.2	213.8	211.8
1977	239.2	205.6	277.9	265.1	200.3	320.0	258.9	239.8
1978	273.4	230.8	355.8	310.9	236.5	363.1	279.0	271.0

Source : Figures derived from the data in Table 13.

- Royal and Sun Alliance and London show coefficients of increase which are rather close to the average for the sector;
- Guardian Royal Exchange and Commercial Union have underperformed the group in this respect.

Wood, Mackenzie and Co. point to the following four main reasons underlying this marked upsurge (1) :

- Increased interest rates — worldwide interest rates over the past five years have been maintained at unprecedented levels.
- The upsurge in cash flow — inflation has boosted premium growth over this five-year period, while the capital-raising exercises of the companies have been an important addition to cash flow.
- Higher levels of loss reserves — inflation and the greater importance of longer-tail lines in insurance portfolios have necessitated the rapid building up of reserves - a larger base on which to earn investment income.
- The changing distribution of assets.

All these factors have exercised an influence upon the investment income growth of each of the companies involved, albeit in varying degrees as will be seen when the yearly growth rates of the individual companies are compared.

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(1) Wood, Mackenzie and Co., Composite Insurance Annual Review, August 1979, p. 11.

### Comparison of Yearly Growth Rates among Individual Companies

To enhance the comparability of the yearly growth rates, Wood, Mackenzie and Co. have corrected the above figures where required. Adaptations have mainly been made to eliminate the influence of major acquisitions on investment income. It should also be noted that the yearly growth rates given by Wood, Mackenzie and Co. and summarized in Table 15, are calculated on the basis of net investment income, i.e. after deduction of loan interest and preference dividends.

On this more refined basis, it is now Eagle Star which shows the best performance over the period with an average increase of 30 % compound. Eagle Star is followed by Phoenix and General Accident (26 % each). The other companies have underperformed the group in this respect.

Wood, Mackenzie and Co. comment as follows upon the yearly investment income growth rates :

#### 1973 (2)

"The historically high average investment income growth rate of 27.5 % in 1973 compares to a five-year compound growth of 16.6 %. It is likely that exchange rate movements added about 5 percentage points to the 1973 growth rate, with the principal beneficiaries being those companies with large European, Australian and South African businesses. Commercial Union and Royal Insurance again reported below-average advances in investment income, reflecting in part, their heavier concentration in North America where premium growth was low and exchange rates were virtually stable over 1973. Although exceptional factors boosted Sun Alliance and London's growth, the massive 51 % advance was mainly attributable to the building up of a substantial liquidity position".

#### 1974 (3)

"Against a five-year average growth of 18.4 %, the seven companies' investment income rose by 22 % in 1974. This represented some slowing down for all of the companies except Phoenix and compared to the record 27.5 % advance of 1973. Two conflicting forces influenced investment income growth in 1974, namely the strain on cash flow arising from underwriting deterioration and higher interest rates. In the event, the companies were able to neutralise and positively compensate for the cash flow problem on trading by substantially increasing the proportion of their assets on deposit or in short dated fixed interest investments. Both new money and a degree of switching of assets were employed to maximize the advantages of historically high interest rates.

In recent years the two largest companies, Commercial Union and Royal Insurance, have reported below-average growth in investment income, if the effects of acquisitions are excluded. After very modest growth in the late 1960's, Sun Alliance and London has shown the strongest growth — with investment income doubling in the past two years.

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- (2) Wood, Mackenzie and Co., Composite Insurance Annual Review, September 1974, p. 9.
  - (3) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1975, p. 10.



Table 15 : Net Investment Income Yearly Growth Rates 1973 - 1978 (%).

Year	Composite Insurance Group	Commercial Union	Eagle Star	General Accident	Guardian Royal Exchange	Phoenix	Royal	Sun Alliance and London
1973	28	19	38	29	30	31	20	51
1974	22	19	30	24	15	33	19	32
1975	18	17	9	22	28	24	17	12
1976	36	27	49	43	22	33	49	36
1977	16	7	20	27	14	11	21	14
1978	15	17	29	18	20	10	8	13
Yearly Average increase 1973-1978 'compound'	24	22	30	26	21	26	22	22

Source : Wood, Mackenzie & Co., Composite Insurance Annual Reviews, 1973 - 1978.

Although income from new property developments has contributed to this performance, Sun Alliance and London moved decisively in 1973 to increase the proportion of its assets on deposit, and with Eagle Star and Phoenix, was able to maintain above-average growth in 1974.

Guardian Royal Exchange's advance of only 14.6 % in 1974 was depressed by the absence of property subsidiary profits and, on the pure insurance business, the growth was a more satisfactory 28 %".

#### 1975 (4)

"Against a five-year average growth of 21 %, the seven companies' investment income advance slowed down for the second year running in 1975 with an overall rise of 18 %. The peak growth year was 1973 (+ 27.5 %) and, as cash flow came under pressure from deteriorating underwriting results, the advance fell to 22 % in 1974. The further decline of 1975 (excluding earnings on rights money) was due to lower interest rates, a switch of funds from deposits to fixed interest securities and a further squeeze on cash flow.

Until 1975 Royal's traditionally above-average concentration in equity investment resulted in it being the only company to record a significantly below-average investment income growth. Royal has substantially changed the disposition of its investments and its increased commitment to fixed interest holdings should raise its growth rate in future years. At the end of 1974, Eagle Star and Sun Alliance and London had the highest proportion of their assets on deposit and their slower investment income advances in 1975 reflect the decline in interest rates and the latter's increase in equity investment in late 1974 and early 1975. Guardian Royal Exchange achieved the strongest growth in 1975, aided by the re-emergence of profits on its property development subsidiary".

#### 1976 (5)

"High levels of interest rates, sterling devaluation and the benefit of a full year's proceeds from rights issues combined to produce a substantial 36 % growth in investment income. Eagle Star also benefited from a full year's contribution from the acquisition of Grovewood, while Royal's growth rate is exaggerated by its use of average rather than year-end exchange rates. Commercial Union's below-average growth reflects reduced cash flow following its underwriting losses and retrenchment in Australia and the U.S. while Guardian Royal Exchange's disappointing 22 % increase was partly caused by various technical factors".

#### 1977 (6)

"Deceleration of cash flow, stronger sterling and, in the U.K., declining short-term interest rates combined to restrict the increase of investment income for ordinary to 16 % (around 20 %, excluding currency fluctuations) — modest by the 36 % advance in 1976. General Accident benefited from a full year's use of the October 1976 rights issue and the concentration of new money into the still high yielding long gilts in the U.K. Royal's use of average rather than year-end exchange rates enhanced published growth rates, while the only other company to achieve above-average growth, Eagle Star, benefited from particularly strong cash flow".

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(4) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1976, p. 11.

(5) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1977, p. 43.

(6) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1978, p. 48.

**1978 (7)**

"Despite a slackening of cash flow and the continued strength of sterling, aggregate investment income increased by 15 %, with Eagle Star and to a lesser extent, Guardian Royal Exchange and General Accident achieving above-average growth rates. Over the past five years investment income has increased by 24 % p.a. for the reasons discussed earlier — strong cash flow, raising of new capital, high interest rates and a change of investment policy towards fixed interest investments. Over this longer period, Eagle Star, with its U.K. orientated portfolio and significant involvement in long-tail liability lines, has achieved the fastest growth rates, at 30 % p.a.

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(7) Wood, Mackenzie and Co., Composite Insurance Annual Review, August 1979, p. 46.

### Changes in the Distribution of Funds over Asset Categories

Tables 16, 17 and 18 show for the composite insurance companies taken as a group, the assets subdivided in their main categories,

- in £m (Table 16);
- in indices (Table 17);
- in percentages (Table 18).

Table 17 shows that the total assets have nearly doubled over the quinquennium (coefficient 1.99). The respective factors of increase are (in descending order) :

— Fixed Interest Securities	2.75
— Mortgages etc.	2.12
— Cash and Deposits	2.05
— Agents' Balances etc.	1.91
— Property	1.73
— Ordinary shares	1.24

It thus appears that the typically "fixed interest" assets (fixed interest securities and mortgages), have scored the greatest increases over the period, as well in absolute figures (cfr. Table 16) as in relative importance. The "equity" components (ordinary shares and property) have on the contrary underperformed in comparison with the average increase factor for total assets, but particularly compared to the "fixed interest" categories. In the "equity" category itself ordinary shares show a poorer performance (1.24) than property (1.73).

Table 18 confirms this tendency. The proportion of "fixed interest" assets has increased from 35.9 % in 1973 to 47.9 % in 1978, whereas in the same period the relative size of the "equity" components has declined from 38.1 % to 26.5 %.

The main reasons underlying this marked change in investment strategy in this period were :

- the general and substantial rise of interest levels in the period under review;
- the escalation of inflation and the disappearance of the earlier optimism about the "inflation hedge" qualities of equities and property, subsequent to the world-wide collapse of stock exchange values in 1973 and 1974 which is illustrated further on.

That this change in investment strategy was common to nearly all companies is illustrated in Table 19, which summarizes the shifts in "fixed interest" and "equity" assets for each of the individual composites in 1978 compared to 1973 (8).

Royal shows the most marked swing from "equity" to "fixed interest" assets, the decrease in the former matching almost exactly the increase in the latter (— 19.6 % versus + 19.8 %).

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(8) Appendix C gives the percentage distribution of each individual company for the successive years 1973 up to 1978.

**Table 16 : Distribution of Short-Term Funds over Asset Categories (£m).**

	1973	1974	1975	1976	1977	1978
Fixed Interest Securites	1,444.1	1,533.6	2,132.6	3,055.0	3,675.6	3,967.1
Mortgages etc.	273.6	337.9	395.7	507.3	522.2	579.3
Ordinary Shares	1,277.3	1,003.7	1,329.4	1,411.8	1,497.0	1,587.0
Property	537.1	552.9	641.4	761.2	799.5	929.3
Agents' Balances etc.	903.4	1,047.6	1,304.7	1,604.8	1,608.3	1,725.5
Cash and Deposits	341.1	606.6	644.2	798.8	651.7	699.0
Total Assets	4,776.6	5,082.3	6,448.0	8,138.9	8,754.3	9,487.2
	=====	=====	=====	=====	=====	=====

Source : Annual Reports of the Individual Composite Insurance Companies, 1973 - 1978.

**Table 17 : Distribution of Short-Term Funds over Asset Categories (1973 = 100).**

	<b>1974</b>	<b>1975</b>	<b>1976</b>	<b>1977</b>	<b>1978</b>
Fixed Interest Securities	106.2	147.7	211.6	254.5	274.7
Mortgages etc.	123.5	144.6	185.4	190.9	211.7
Ordinary Shares	78.6	104.1	110.5	117.2	124.2
Property	102.9	119.4	141.7	148.9	173.0
Agents' Balances etc.	116.0	144.4	177.6	178.0	191.0
Cash and Deposits	177.8	188.9	234.2	191.1	204.9
	-----	-----	-----	-----	-----
Totals Assets	106.4	135.0	170.4	183.3	198.6
	=====	=====	=====	=====	=====

Source : Figures derived from the data in Table 16.

**Table 18 : Percentage Distribution of Short-Term Funds over Asset Categories.**

	1973	1974	1975	1976	1977	1978
Fixed Interest Securities	30.2	30.2	33.1	37.5	42.0	41.8
Mortgages etc.	5.7	6.6	6.1	6.2	6.0	6.1
Ordinary Shares	26.8	19.8	20.6	17.4	17.1	16.7
Property	11.3	10.9	10.0	9.4	9.1	9.8
Agents' Balances	18.9	20.6	20.2	19.7	18.4	18.2
Cash and Deposits	7.1	11.9	10.0	9.8	7.4	7.4
Totals Assets	100.0	100.0	100.0	100.0	100.0	100.0
	=====	=====	=====	=====	=====	=====

Source : Figures derived from the data in Table 16.

Companies displaying the same tendency are :

- Guardian Royal Exchange (— 17.0 % versus + 13.6 %);
- Commercial Union (— 14.0 % versus + 11.2 %);
- Phoenix (— 8.4 % versus + 11.6 %);
- General Accident (— 3.6 % versus + 6.4 %).

Eagle Star and Sun Alliance and London have also increased their proportion of "fixed interest" assets, but that of the "equity" categories as well, albeit to a minor extent.

A closer study of the stock exchange markets in the period under review reveals that 1973 and particularly 1974 were by far the most difficult years from an investment point of view. Table 20 shows the widespread and severe falls that occurred in all securities in those years.

**Table 19 : "Fixed Interest" and "Equity" Assets as a Percentage of Total Assets  
in 1973 and 1978**

	1973	1978	Difference
<b>Commercial Union</b>			
Fixed Interest	41.4	52.6	+ 11.2
Equity	36.5	22.5	— 14.0
<b>Eagle Star</b>			
Fixed Interest	32.6	39.0	+ 6.4
Equity	35.2	37.3	+ 2.1
<b>General Accident</b>			
Fixed Interest	44.2	50.6	+ 6.4
Equity	31.3	27.7	— 3.6
<b>Guardian Royal Exchange</b>			
Fixed Interest	22.4	36.0	+ 13.6
Equity	49.2	32.2	— 17.0
<b>Phoenix</b>			
Fixed Interest	30.6	42.2	+ 11.6
Equity	37.8	29.4	— 8.4
<b>Royal</b>			
Fixed Interest	39.1	58.9	+ 19.8
Equity	38.8	19.2	— 19.6
<b>Sun Alliance and London</b>			
Fixed Interest	30.4	36.7	+ 6.3
Equity	32.1	32.8	+ 0.7

Source : Figures derived from data in the Annual Reports 1973 and 1978 of the Individual Composite Insurance Companies



Table 20 : Selected Stock Market Indices at the End of 1972, 1973 and 1974

	31.12.72	31.12.73	31.12.74
<b>United Kingdom</b> (Financial Times Indices)			
20-Year Government Stocks	72.8	57.7	38.9
20-Year Debentures	71.0	54.8	37.2
500 Shares	217.0	150.0	68.4
<b>United States</b> (Dow Jones Indices)			
Bonds	75.0	72.8	66.1
30 Common Stocks	1,020.0	850.9	616.2

In their first-stage evidence to the Committee reviewing the functioning of financial institutions (the so-called "Wilson Committee") the insurance companies comment as follows on the sharp fall in the London exchange market in 1974 (9) :

"This period began with the Arab-Israeli War, the rise in oil prices and the cutback in supplies and the "energy crisis" of December 1973; it covered the 1974 miners' strike and the inflationary settlement that resulted from it; two general elections, with their inevitably unsettling effects on the stock market; the abandonment of wage control and the maintenance of price control; a rise in corporation tax; severe monetary and fixed restriction; a rise of the inflation rate to over 20 % a year and a balance of payments current account deficit for the year of £3,400m. The period culminated in a financial crisis which included the failure of British Leyland; the rescue of Burmah Oil; and the "life-boat" operation for secondary banks. This was by far the most dangerous situation since 1931 and justified real doubt as to whether a number of major companies could survive in a form in which their ordinary shares would have any significant value. In these circumstances it is not surprising that a widespread view developed among the institutions about the advisability of building up liquidity rather than buying shares".

The result of this tendency of building up liquidity is clearly brought into light by the evolution of "Cash and Deposits". For the whole group of composite insurers, this asset component showed at the end of 1974 as compared to the end of 1973 an increase of nearly 78 %, representing at the same time 11.9 % of the total assets (7.1 % in 1973).

That this tendency was common to each of the companies is shown in the following table.

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(9) British Insurance Association, Evidence from the Insurance Companies, June 1977, p. 16.

**Table 21 : Cash and Deposits as a Percentage of Total Assets at the End of 1973 and 1974**

	At Year-End	
	1973	1974
	%	%
Commercial Union	5.6	14.2
Eagle Star	11.4	16.9
General Accident	10.9	14.3
Guardian Royal Exchange	6.3	13.6
Phoenix	8.4	10.7
Royal	3.6	4.8
Sun Alliance and London	12.8	13.0

Source : Figures derived from data in the Annual Reports 1973 and 1974 of the Individual Composite Insurance Companies.

The relative increase of Cash and Deposits was most pronounced in Commercial Union (+ 8.6 %), Guardian Royal Exchange (+ 7.3 %) and Eagle Star (+ 5.5 %). Royal on the contrary showed only a minor increase (+ 1.2 %), whereas Sun Alliance and London stabilized the relative size of Cash and Deposits at the already high level of this component reached at the end of 1973.

"As well as building up Cash and Deposits, gilt holdings were, to some extent switched from the long end into shorter dated stocks" (10). Available data, however, do not permit to follow this type of operations in greater detail.

When comparing subsequently Cash and Deposits at the end of 1974 and 1975, the following picture emerges.

**Table 22 : Cash and Deposits as a Percentage of Total Assets at the End of 1974 and 1975**

	At Year-End	
	1974	1975
	%	%
Commercial Union	14.2	9.1
Eagle Star	16.9	17.2
General Accident	14.3	12.8
Guardian Royal Exchange	13.6	10.6
Phoenix	10.7	12.1
Royal	4.8	6.0
Sun Alliance and London	13.0	11.0

Source : Figures derived from data in the Annual Reports 1974 and 1975 of the Individual Composite Insurance Companies.

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(10) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1974, p. 19.

Four of the seven companies thus show in 1975 a reduction of Cash and Deposits as a percentage of total assets : Commercial Union (— 5.1 %), Guardian Royal Exchange (— 3.0 %), Sun Alliance and London (— 2.0 %) and General Accident (— 1.5 %). Phoenix and Royal on the other hand increased their relative proportion of Cash and Deposits with a modest 1.4 % and 1.2 % respectively, whereas Eagle Star practically stabilized at its already high level of nearly 17 %.

In the meantime investment values had recovered considerably from the low levels at 31 December 1974, particularly in the U.K. as is shown in the following comparison of key stock exchange market indices :

**Table 23 : Selected Stock Market Indices at the End of 1974, 1975 and 1976**

	31.12.74	31.12.75	31.12.76
<b>United Kingdom</b> (Financial Times Indices)			
20-Year Government Stocks	38.9	47.3	46.4
20-Year Debentures	37.2	49.6	46.1
All Share	66.9	158.1	152.0
<b>United States</b> (Dow Jones Indices)			
Bonds	66.1	69.0	93.2
30 Common Stocks	616.2	852.4	1,004.6

Table 23 to which have been added the indices at the end of 1976 shows that whilst there were substantial increases in 1975, there was comparatively little difference between the U.K. price levels at the end of 1976 and those at the end of 1975. In the U.S., however, there were in 1976 appreciable increases in common stock and bond prices.

In the following table the history of the stock exchange movements is completed for the period by including the indices for 1977 and 1978.

**Table 24 : Selected Stock Market Indices at the End of 1976, 1977 and 1978**

	31.12.76	31.12.77	31.12.78
<b>United Kingdom</b> (Financial Times Indices)			
Government Securities	60.3	78.1	68.7
20-Year Debentures	46.1	62.5	54.8
All Share	152.0	214.5	220.2
<b>United States</b>			
Bonds (Kuhn Loeb Index)	96.9	92.5	85.4
30 Common Stocks (Dow Jones Index)	1,004.6	831.2	805.0

In 1977 U.K. fixed interest and equity prices both showed appreciable increases due to the general improvement in economic conditions. The U.S. market on the other hand fell throughout the year in conjunction with a steadily weakening dollar and common stock prices closed the year some 17 % lower than those ruling on 1 January.

With regard to 1978 the table shows that bond prices fell significantly in both centres. Equity prices on the other hand rose slightly in the U.K. and declined moderately in the U.S.

### Capital Increases Required by Solvency Margin Obligations

The investment income of the individual composite insurers has also been influenced by the investment of funds which became available as a result of capital-raising exercises made by the companies to meet the required solvency margins.

The reader will remember :

1. the disastrous underwriting results particularly in the period 1974 - 1976;
2. the collapse of the stock exchange values at the end of 1973 and in 1974 and the reduction of the value of assets held to meet future claim liabilities;
3. the heavy and escalating inflationary pressures during the period under study which boosted premium income as well as the costs of claims.

The combined effect of these factors was a very strong pressure on the solvency margins (11) of the composite insurers.

This influence may be gauged by comparing in Table 25 the solvency margins for 1973 and 1974 of the composite group and of the individual companies. The differences are as follows (figures in %) :

— Composite insurance group	— 21.3
— Commercial Union	— 16.1
— Eagle Star	— 24.3
— General Accident	— 28.9
— Guardian Royal Exchange	— 25.5
— Phoenix	— 2.4
— Royal	— 38.7
— Sun Alliance and London	— 9.8

It should be noted here that Commercial Union's solvency margin for 1974 would have been as low as 14 %, pointing thus to a 33 % fall if the £62.4m raised by a rights issue in October 1974 had been excluded.

As Royal had at the end of 1973 the largest commitment to shares investment (33.8 % compared to an average of 26.8 % for the sector), it suffered in 1974 also the most striking contraction (— 38.7 %).

Wood, Mackenzie and Co. comment on the evolution of solvency margins in the period 1972 - 1974 as follows (12) :

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(11) The solvency margin is derived by dividing shareholders' capital and reserves into the yearly premium income of the company.

(12) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1975, p. 17.

Table 25 : Solvency Margins 1973-1978 (%).

Year	Composite Insurance Group	Commercial Union	Eagle Star	General Accident	Guardian Royal Exchange	Phoenix	Royal	Sun Alliance and London
1973	47.3	47.0	45.3	47.9	55.0	35.2	56.9	43.9
1974	26.0	30.9	21.0	19.0	29.5	32.8	18.2	34.1
1975	47.4	38.2	63.7	38.4	52.2	48.1	46.2	70.6
1976	45.7	36.1	48.5	56.8	46.5	42.7	42.6	62.7
1977	55.0	55.7	65.9	61.0	51.5	52.8	42.2	78.0
1978	55.0	60.3	56.9	53.4	54.4	51.8	43.9	74.3

Source : Rowe & Pitman, Insurance Shares, 1973-1978.

"1972 and 1974 represent the recent high and low points respectively of the companies' solvency margins. Over the two-year period, Eagle Star and Royal suffered the most striking contractions from levels of over 80 % to about 20 %. Both have major commitments to equity investment, with Eagle Star's assets being held predominantly in the U.K. Commercial Union and General Accident experienced lesser reductions to around the 20 % level in 1974, although excluding the £60m raised by rights issue in October, Commercial Union's margin would have been about 14 %. Both Guardian Royal Exchange and Sun Alliance and London built up substantial liquidity positions during the past two years which, combined with their larger European involvement and modest exposure to the U.S. market, helped them to limit the decline in their margins to about 30 % at the end of the year".

The considerable improvement of investment values after 1974 contributed to alleviate the solvency margin pressures to a considerable extent.

All the companies, however, had to raise new money in the capital market as is shown in Table 26, where the rights issues are listed in chronological order.

Table 26 : Rights Issues (£m)

1974, October	Commercial Union	62.4
1975, March	Guardian Royal Exchange	32.7
June	Sun Alliance and London	38.9
July	Phoenix Assurance	21.1
October	Royal Insurance	66.1
1976, January	Eagle Star	26.8
October	General Accident	45.1
1977, December	Commercial Union	76.3

Source : Annual Reports of the Individual Composite Insurance Companies, 1973 - 1978.

It thus appears that the composite insurance group raised in the years 1973 - 1978 new capital by way of rights issues for a total amount of £369.4m, subdivided as follows (figures in £m) :

— Commercial Union	138.7
— Royal	66.1
— General Accident	45.1
— Sun Alliance and London	38.9
— Guardian Royal Exchange	32.7
— Eagle Star	26.8
— Phoenix	21.1
	<hr/>
	369.4

The funds which were received as a result of these rights issues and which were invested subsequently, had clearly a positive and substantial influence on the investment income of the respective insurance companies.

### Relative Importance of Investment Income

Tables 27, 28 and 29 respectively show :

- Gross investment income as a percentage of non-life premium income (Table 27)
- Gross investment income related to earnings before taxes (Table 28)
- Net investment income related to dividends (Table 29).

1. Table 27 shows that the growth of gross investment income has exceeded the increase of premium income throughout the period. There are only a few minor exceptions : Commercial Union in 1976, Eagle Star in 1977, General Accident in 1975 and Guardian Royal Exchange in 1976.
2. The vital importance of investment income in the earnings of composite insurance companies is most clearly illustrated by the data in Table 28. In most years the coefficients derived by dividing investment income into earnings exceeded the factor 1, in a few cases the factor 2 and in one case even 3 (Royal in 1974). The coefficients were on the other hand less than 1 for :
  - Composite insurance group in 1978 (0.98)
  - Eagle Star in 1973 (0.95)
  - General Accident in 1973 (0.71) and in 1978 (0.98)
  - Guardian Royal Exchange in 1975 (0.99), 1976 (0.96) and 1978 (0.93)
  - Phoenix in 1973 (0.83)
  - Royal in 1977 (0.87) and 1978 (0.82)
  - Sun Alliance and London in 1973 (0.75), 1975 (0.97) and 1977 (0.92)

The evolution of the underwriting results, the other major component of the earnings of composite insurers, has of course to be taken into account in interpreting the coefficients in Table 28. The extensive analysis of those results which has been made in the previous chapter will of course not be repeated here. The reader, however, will notice that the evolution of the coefficients displayed in Table 28 is evidently opposed to the pattern of the underwriting results. This is best illustrated by the figures for the sector as a whole which show :

- an appreciable increase in 1973 - 1975
- a subsequent fall in 1976 - 1978.

3. Table 29 permits the inference that investment income, as will already have become clear from the data in Table 28, has a dominant influence on dividends. During the period 1973 - 1978 net investment income as compared to dividend, has fluctuated between 3.21 (Royal in 1973) and 6.54 (Eagle Star in 1978), the average "dividend cover" for the group lying clearly in the 4 to 5 range.



**Table 27 : Gross Investment Income as a Percentage of Non-Life Premium Income 1973 - 1978.**

<b>Year</b>	<b>Composite Insurance Group</b>	<b>Commercial Union</b>	<b>Eagle Star</b>	<b>General Accident</b>	<b>Guardian Royal Exchange</b>	<b>Phoenix</b>	<b>Royal</b>	<b>Sun Alliance and London</b>
1973	8.93	9.67	10.82	8.51	9.79	8.03	7.80	8.44
1974	9.84	10.63	12.61	9.39	10.31	10.14	8.10	9.79
1975	10.11	10.83	13.48	8.97	11.52	10.63	8.23	9.91
1976	10.43	10.78	15.69	9.67	10.43	11.22	8.77	10.98
1977	11.26	11.91	15.17	11.16	11.04	12.85	9.39	11.39
1978	12.26	13.02	16.82	11.84	12.44	13.98	10.25	11.50

Source : Figures derived from data in the Annual Reports of the Individual Composite Insurance Companies, 1973 - 1978.

**Table 28 : Gross Investment Income to Earnings before Taxes 1973 - 1978.**

Year	Composite Insurance Group	Commercial Union	Eagle Star	General Accident	Guardian Royal Exchange	Phoenix	Royal	Sun Alliance and London
1973	1.00	1.42	0.95	0.71	1.01	0.83	1.10	0.75
1974	1.62	1.62	1.07	1.64	1.35	1.65	3.61	1.17
1975	2.04	(*)	1.04	2.52	0.99	1.43	1.98	0.97
1976	1.42	2.62	1.23	1.41	0.96	1.48	1.22	1.24
1977	1.05	1.28	1.10	1.07	1.11	1.16	0.87	0.92
1978	0.98	1.01	1.20	0.98	0.93	1.26	0.82	1.01

(\*) Negative Earnings before taxes

Source : Figures derived from data in the Annual Reports of the Individual Composite Insurance Companies, 1973 - 1978.

**Table 29 : Net Investment Income to Dividends 1973 - 1978.**

<b>Year</b>	<b>Composite Insurance Group</b>	<b>Commercial Union</b>	<b>Eagle Star</b>	<b>General Accident</b>	<b>Guardian Royal Exchange</b>	<b>Phoenix</b>	<b>Royal</b>	<b>Sun Alliance and London</b>
1973	3.83	3.73	4.10	4.41	4.13	4.28	3.21	4.21
1974	4.01	3.42	4.95	4.99	4.01	4.56	3.51	5.05
1975	4.04	3.66	4.35	5.58	4.09	4.96	3.43	4.23
1976	4.81	4.61	5.32	5.40	4.50	5.96	4.27	5.24
1977	4.62	3.54	5.63	5.51	4.57	5.70	4.59	5.28
1978	4.69	3.55	6.54	5.86	4.82	5.64	4.34	5.34

Source : Figures derived from data in the Annual Reports of the Individual Composite Insurance Companies, 1973 - 1978.

## CHAPTER V

### LIFE PROFITS

#### Meaning of Life Profits

Life assurance profits, calculated from actuarial valuation, constitute the third source of earnings for the composite insurance companies.

All companies considered here have important life operations and life funds, although there are substantial differences between them, as is apparent from a study of the financial statements with regard to their long-term business activities. Summaries of these statements are given in Appendix D.

This report deals exclusively with that part of the valuation surplus which is transferred to the profit and loss account and is available for distribution as dividend.

"This surplus is not a profit but represents that part of the fund, which, on a valuation of the assets and liabilities, is calculated to be surplus to the requirements of the fund in meeting its future obligations to policyholders and can safely be distributed to the holders of participating policies and to the proprietors. In making these periodical valuations of the assets and liabilities, the actuary to the funds makes certain assumptions about future events — mortality, ratio of interest, expenses, investment values, taxation, etc. As the first duty is to policyholders, these assumptions are made on the most conservative basis, thereby creating inner reserves against contingencies. The calculation of the surplus is, therefore, more a matter of assumption than of fact, and in some companies the proportions of the surplus which is allotted to the shareholders can be varied at the discretion of the directors" (1).

The reader should bear this in mind when studying and interpreting Table 30 which sets out the life transfers to the profit and loss accounts of the companies concerned.

Instead of concentrating on these absolute amounts and their evolution, it seems much more appropriate in order to get a more meaningful view of the varying degrees of importance of the life assurance operations to the respective composite companies :

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(1) Rowe & Pitman, Insurance Shares 1979, pp. 3-4.

**Table 30 : Life Transfers 1973 - 1978 (£m).**

<b>Year</b>	<b>Composite Insurance Group</b>	<b>Commercial Union</b>	<b>Eagle Star</b>	<b>General Accident</b>	<b>Guardian Royal Exchange</b>	<b>Phoenix</b>	<b>Royal</b>	<b>Sun Alliance and London</b>
1973	15.8	2.7	4.9	1.5	2.9	1.4	1.3	1.1
1974	18.5	3.1	5.3	1.5	4.3	1.5	1.7	1.1
1975	24.0	6.0	6.2	1.8	5.0	1.7	1.7	1.6
1976	28.4	7.9	7.0	1.9	5.5	1.8	2.2	2.1
1977	40.9	14.2	8.0	2.7	6.5	1.9	4.4	3.2
1978	45.3	15.0	9.4	2.2	8.1	2.2	4.4	4.0

Source : Annual Reports of the Individual Composite Insurance Companies, 1973 - 1978.

Note : Rowe & Pitman provide the following precisions (Insurance Shares 1979, p. 4) :

"In the case of Commercial Union and General Accident, the transfers from the life funds are net of taxation. The remaining composite companies show the life transfers grossed up at varying rates of taxation.

Where the life transfer is in respect of a period of more than one year and is required to contribute to profits in future years, the amount so transferred has been adjusted to an annual basis".

- to consider the relative contribution of the life transfers to the pre-tax profit margin;
- to relate the transfers concerned to the dividend.

### **Relative Contribution of Life Transfers to Pre-Tax Profit Margins**

Table 31 shows for the composite insurance group as a whole and for each of the seven companies : the life transfer margin, the pre-tax profit margin and the percentage contribution of the former to the latter for the years 1973 and 1978.

The average contribution from life assurance transfers to the pre-tax profit was in 1978 7.4 % for the group as a whole. This average figure conceals some wide variations, ranging from 2.4 % (General Accident) to 18.4 % (Eagle Star). After Eagle Star, the company for which life assurance is most important, Commercial Union (10.5 %) and Guardian Royal Exchange (9.8 %) derived above average benefits from this business.

Next came Sun Alliance and London (6.7 %) and Phoenix (5.8 %).

General Accident (2.4 %) and Royal (2.9 %) had a rather modest involvement in this field.

A comparison with the corresponding figures in 1973 on the other hand shows that, with regard to the contribution from life assurance profits to pre-tax profits :

- the average figure for the group was almost at the same level as in 1978 (7.2 %);
- Eagle Star derived in 1973 as much as 27.0 % of its pre-tax profit from life operations; this contribution, however, has afterwards substantially declined;
- Commercial Union's life profits on the contrary show an exceptional increase in the period under review resulting mainly "from improved results of Delta-Lloyd and the triennial valuation of Commercial Union Life Fund" (2);
- the contribution of life transfers to pre-tax earnings has increased over the period in Guardian Royal Exchange and Sun Alliance and London, whilst declining in Phoenix, General Accident and Royal, although the life transfer margin itself has slightly improved in Royal.

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(2) Wood, Mackenzie and Co., Composite Insurance Annual Review, July 1977, p. 43.

Table 31 : Comparison of Life Transfer Margins and Pre-Tax Profit Margins.

	Life Transfer Margin (%) (a)	Pre-Tax Profit Margin (%) (b)	(a) as a % of (b) (c)
<b>Composite Insurance Group</b>			
1973	0.64	8.93	7.2
1978	0.93	12.56	7.4
<b>Commercial Union</b>			
1973	0.42	6.82	6.2
1978	1.36	12.92	10.5
<b>Eagle Star</b>			
1973	3.08	11.39	27.0
1978	2.58	13.99	19.4
<b>General Accident</b>			
1973	0.45	11.98	3.8
1978	0.29	12.08	2.4
<b>Guardian Royal Exchange</b>			
1973	0.87	9.70	9.0
1978	1.31	13.44	9.8
<b>Phoenix</b>			
1973	0.86	9.70	8.9
1978	0.65	11.14	5.8
<b>Royal</b>			
1973	0.23	7.12	3.2
1978	0.36	12.54	2.9
<b>Sun Alliance and London</b>			
1973	0.42	11.27	3.7
1978	0.77	11.43	6.7

Source : Figures derived from data in the Annual Reports 1973 and 1978 of the Individual Composite Insurance Companies.

### Life Transfers to Dividends

As an alternative way of illustrating the varying degrees of benefit from life operations for the individual composite insurers, Table 32 relates life transfers to dividends for the years 1973 - 1978.

The table shows e.g. that for the sector as a whole 37.7 % of the dividends paid over 1978 were covered by life transfers.

In that same year three companies showed an above-average figure for the dividend cover thus calculated :

— Eagle Star	102.2 %
— Guardian Royal Exchange	55.5 %
— Commercial Union	42.9 %

Sun Alliance and London and Phoenix had a dividend cover of 35.7 % and 31.4 % respectively.

At the other end of the spectrum Royal's and General Accident's life business accounted for only 15.5 % and 14.9 % of their dividend.



**Table 32 : Life Transfers to Dividends 1973 - 1978 (%).**

<b>Year</b>	<b>Composite Insurance Group</b>	<b>Commercial Union</b>	<b>Eagle Star</b>	<b>General Accident</b>	<b>Guardian Royal Exchange</b>	<b>Phoenix</b>	<b>Royal</b>	<b>Sun Alliance and London</b>
1973	30.7	21.6	122.5	24.6	42.7	48.3	9.4	21.2
1974	30.1	16.9	123.3	22.4	55.1	41.7	11.3	19.3
1975	31.4	28.2	103.3	24.7	48.1	34.7	9.2	19.8
1976	32.5	36.7	95.9	17.6	47.8	33.3	10.0	23.6
1977	38.6	47.2	96.4	20.2	50.4	30.2	17.7	32.0
1978	37.7	42.9	102.2	14.9	55.5	31.4	15.5	35.7

Source : Figures derived from data in the Annual Reports of the Individual Composite Insurance Companies, 1973 - 1978.

## CHAPTER VI

### EARNINGS PER SHARE, NET ASSET VALUES, SHARE PRICES

#### Earnings per Share

Table 33 overleaf shows the available net income or earnings per share for each of the seven composite insurance companies. Compared to 1973, the earnings 1978 have increased by the following percentages (ranking in descending order) :

— Royal	+ 185.0 %
— Eagle Star	+ 170.3 %
— Guardian Royal Exchange	+ 109.6 %
— Phoenix	+ 85.4 %
— Commercial Union	+ 79.8 %
— General Accident	+ 70.4 %
— Sun Alliance and London	+ 56.8 %

When comparing these data with the Retail Price Index increase which was 111 % (1) over the period under review, it appears that "of the seven companies, only two — Royal and Eagle Star — have achieved real earnings growth, while Guardian Royal Exchange's earnings progress has just matched inflation. All of the other companies have underperformed over the period" (2).

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(1) Wood, Mackenzie and Co., Composite Insurance Annual Review, August 1979, p. 51.

(2) Wood, Mackenzie and Co., Composite Insurance Annual Review, August 1979, p. 50.

Table 33 : Available Net Income per Share 1973 - 1978 (in p.).

Year	Commercial Union	Eagle Star	General Accident	Guardian Royal Exchange	Phoenix	Royal	Sun Alliance and London
1973	11.9	7.4	21.3	15.7	20.5	20.6	42.8
1974	12.3	9.0	11.9	12.7	13.7	8.3	37.2
1975	(1.2)	12.4	10.2	20.3	20.8	15.9	43.0
1976	10.8	12.2	22.7	24.8	21.5	33.5	44.1
1977	19.4	19.8	29.2	22.7	40.2	49.8	64.3
1978	21.4	20.0	36.3	32.9	38.0	58.7	67.1

Source : Pitman & Rowe, Insurance Shares, 1973 - 1978.

### Net Asset Value (N.A.V.) per Share

"The impact of inflation is even more noticeable when considering growth in net asset values" (3).

Table 34 sets out the evolution of these data since 1973, from which the following percentages have been derived (given in descending order) :

— Sun Alliance and London	+ 135.0 %
— General Accident	+ 77.1 %
— Guardian Royal Exchange	+ 62.3 %
— Phoenix	+ 51.5 %
— Royal	+ 34.2 %
— Eagle Star	+ 33.7 %
— Commercial Union	+ 15.3 %

Only Sun Alliance and London, with a N.A.V. increase of 135.0 % has outperformed inflation, while the other companies have all declined in real terms. In interpreting these figures, however, the dilution effect on N.A.V. of the rights issues by the individual companies (referred to in chapter IV), coupled with the poor earnings performance over the period, should be considered.

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(3) Wood, Mackenzie and Co., Composite Insurance Annual Review, August 1979, p. 50.

**Table 34 : Evolution of Net Asset Values per Share 1973 - 1978 (in p.).**

<b>At Year-End</b>	<b>Commercial Union</b>	<b>Eagle Star</b>	<b>General Accident</b>	<b>Guardian Royal Exchange</b>	<b>Phoenix</b>	<b>Royal</b>	<b>Sun Alliance and London</b>
1973	176	190	157	223	227	298	386
1974	95	122	75	150	167	122	317
1975	136	147	164	229	246	259	547
1976	164	164	233	269	281	326	606
1977	184	235	276	318	327	390	819
1978	203	254	278	362	344	400	907

Source : Wood, Mackenzie & Co., Composite Insurance Annual Reviews, 1973 - 1978.

### Share Prices

Tables 35 and 36 give at the end of the years 1972 (4) until 1978 :

- the F.T.-Actuaries all-share index, the composite insurance shares index and the share prices of each of the seven composites on the basis of 31.12.72 = 100 (Table 35)
- the year-to-year percentage changes in the same indices and share prices derived from the previous table (Table 36).

The tables show that the British share market performed very badly in 1973 and even worse in 1974, the F.T.-Actuaries all-share index showing at the end of 1974 a slump of 69.3 % (with reference to 31 December 1972), composed of losses of 31.3 % in 1973 and 38.0 % in 1974. The main factors accounting for the steep fall in 1973 and particularly in 1974 were (5) :

- the oil crisis, which required large-scale borrowings abroad;
- the miners' strike paralysing the economy for weeks;
- the collapse of real estate financing and the serious difficulties on the part of the so-called secondary banks;
- government policy with regard to intervention in industry, industrial relations and taxation;
- the huge budget deficit;
- the persistently big deficit in the trade balance;
- the high inflationary pressures.

The composite insurance index fell in the same period with 66.0 %. With the exception of the Eagle Star share which showed a decline of 76.0 %, the losses of the other composite insurers' shares were all in the 63.5 % – 67.5 % range.

The share prices recovered substantially during 1975, so that at the end of that year the F.T.-Actuaries index showed an increase of 136.2 % in comparison with the end of 1974. It is true that this recovery may be explained to a major extent by technical factors such as the extraordinary downturn of the stock exchange in 1974. "More fundamental, however, was the changed attitude of the Labour government which, through a reduction of tax on stock profits, abolition of rent control and a more realistic economic policy had provided a real basis for a stock exchange recovery" (5).

The composite index showed a rise of 119.7 % compared to the end of 1974, the percentages of increase for the individual composite insurers' shares varying between 138.3 % (Eagle Star) and 80.6 % (Commercial Union).

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(4) Inclusion in those tables of the December 31, 1972 figures is intended to illustrate more clearly the dramatic fall of share prices in 1973 and 1974.

(5) Kredietbank, Weekly Bulletin, 1976, No. 1, January 2, p. 3.

**Table 35 : Evolution of F.T.-Actuaries All-Share Index, Composite Insurance Index and of Composite Insurance Share Prices 1973 - 1978 (31.12.72 = 100).**

<b>At Year-End</b>	<b>F.T.-Actuaries All-Share Index</b>	<b>Composite Insurance Index</b>	<b>Commercial Union</b>	<b>Eagle Star</b>	<b>General Accident</b>	<b>Guardian Royal Exchange</b>	<b>Phoenix</b>	<b>Royal</b>	<b>Sun Alliance and London</b>
1973	68.7	72.3	73.1	62.5	77.8	67.5	76.9	74.4	70.9
1974	30.7	34.0	34.5	24.0	36.5	32.5	35.1	32.5	32.9
1975	72.5	74.7	62.3	57.2	76.7	72.8	76.9	74.9	77.2
1976	69.7	64.1	43.5	50.5	77.8	62.3	67.2	69.0	66.9
1977	98.3	97.4	66.8	75.5	118.2	93.3	103.7	101.7	104.9
1978	100.9	86.7	65.9	63.9	101.5	80.6	87.3	87.9	91.9

Source : Read, Hurst-Brown & Co., Insurance Shares, 1973 - 1978.

**Table 36 : Year-to-Year Percentage Changes in F.T.-Actuaries All-Share Index, Composite Insurance Index and Composite Insurance Share Prices 1973 - 1978  
(31.12.72 = 100).**

At Year-End	F.T.-Actuaries All-Share Index	Composite Insurance Index	Commercial Union	Eagle Star	General Accident	Guardian Royal Exchange	Phoenix	Royal	Sun Alliance and London
1973	- 31.3	- 27.7	- 26.9	- 37.5	- 22.2	- 32.5	- 23.1	- 25.6	- 29.1
1974	- 55.3	- 53.0	- 52.8	- 61.6	- 53.1	- 51.9	- 54.4	- 56.3	- 53.6
1975	+ 136.2	+ 119.7	+ 80.6	+ 138.3	+ 110.1	+ 124.0	+ 119.1	+ 130.5	+ 134.7
1976	- 3.9	- 14.2	- 30.2	- 11.7	+ 1.4	- 14.4	- 12.6	- 7.9	- 13.3
1977	+ 41.0	+ 52.0	+ 53.6	+ 49.5	+ 51.9	+ 49.8	+ 54.3	+ 47.4	+ 56.8
1978	+ 2.6	- 11.0	- 1.3	- 15.4	- 14.1	- 13.6	- 15.8	- 13.6	- 12.4

Source : Figures derived from the data in Table 35.



In 1976 "doubts as to the economic prospects of the U.K. were constantly revived, inter alia through failure to cut government expenditures, the deterioration of the trade balance and the expansion of the money supply. This led to a fundamental lack of confidence in sterling. At the end of October it was announced that the U.K. would borrow £10 billion from the I.M.F. in order to solve the problem of the sterling balances and to respect its financial commitments" (6). This led to a strengthening of the pound and to an increase in the stock market prices, which ended the year 3.9 % under the December 31, 1975 level. The composite insurance index showed a decline of 14.2 % over the same period, the percentage changes ranging from a fall of 30.2 % (Commercial Union) to a rise of 1.4 % (General Accident).

The revival which had started in October 1976, continued in 1977.

"Sterling and the London stock exchange were supported in particular by the massive financial aid in the form of I.M.F. and other credits which the U.K. received early 1977. This aid was linked to very severe conditions as to financial, monetary and budgetary policy, which the British government took seriously in hand. After that, the stock market trend was given a boost by the continued growth of monetary reserves, the improved balance of payments, a gradually shrinking inflation, falling interest rates and the firming-up of sterling against the U.S. dollar.

With a view to Phase 3 in the wages policy, the social tensions increased in September-October as the government was holding firmly to a maximum 10 % wage rise" (7).

This had a depressing effect on the London stock exchange, the level of which was at the end of 1977 still 41.0 % higher than at the end of 1976. The composite index staged an even more pronounced recovery ending 1977 52.0 % higher than 1976, the increases varying between 56.8 % (Sun Alliance and London) and 47.4 % (Royal).

After the steep rise in 1977, investors became more reticent early in 1978.

"The economic outlook was indeed less clear and the year started with a big deficit on current account. The growth of the monetary aggregates caused some doubt as to the trend of inflation and of the interest rates, particularly on the medium-term. In view of the necessity to meet a large budget deficit in the fiscal year 1978 - 1979, the government decided in June to take some drastic measures to curb the increase of the money supply.

Besides these financial measures there was encouraging economic news, such as the slowdown in inflation and the improving trade balance. This started a rise on the stock exchange in July, which continued unabatedly until September, leading the overall stock market index to an all-time high.

From mid-September onwards the investors' attention was attracted particularly by phase 4 of the government's wage policy providing for a limitation of the wage increases to 5 %. The outcome of the wage negotiations therefore remained the chief factor of uncertainty.

Optimistic or pessimistic reports in this connexion were the cause of the very volatile price movements at the end of 1978" (8).

(6) Kredietbank, Weekly Bulletin, 1976, No. 50, December 31, pp. 3-4.

(7) Kredietbank, Weekly Bulletin, 1977, No. 49, December 30, p. 3.

(8) Kredietbank, Weekly Bulletin, 1978, No. 49, December 29, p. 3.

The F.T.-Actuaries all-share index stood at the end of 1978 2.6 % above the end of 1977 level. The composite index on the other hand, showed a loss of 11.0 % over the same period. With the exception of Commercial Union, which declined by only 1.3 %, the other composites suffered losses ranging from 12.4 % (Sun Alliance and London) to 15.8 % (Phoenix).

### Comparison of Year-End Net Asset Values and Share Prices

Table 37 overleaf indicates that composite share prices were, at the dates of reference, in general standing at discounts to their end-of-year net asset values.

Royal was in fact the only composite to show a premium on four out of six reference points. At the end of 1976 and 1978 Royal's share was, however, also selling at discounts of 14.1 % and 10.8 % respectively, but was at both times clearly the least undervalued.

General Accident, Sun Alliance and London and Commercial Union were the other companies whose shares stood, but only exceptionally, at a premium (General Accident and Sun Alliance and London at the end of 1973, Commercial Union at the end of 1975).

Table 37 shows that in some cases the discounts were at times and particularly in 1974 and 1978 very substantial as the following examples may demonstrate (percentages always at year-end) :

— Eagle Star :	59.0 % (1974) and 47.6 % (1978)
— Sun Alliance and London :	42.6 % (1974) and 44.0 % (1978)
— Guardian Royal Exchange :	42.0 % (1974) and 40.3 % (1978)

These three companies were also those whose shares were most undervalued not only at the end of 1978, but also mostly over the period taken as a whole.

Table 37 : Comparison of Year-End Net Asset Values and Share Prices 1973 - 1978 (in %).

At Year-End	Commercial Union	Eagle Star	General Accident	Guardian Royal Exchange	Phoenix	Royal	Sun Alliance and London
1973	- 7.4	- 31.6	+ 0.6	- 18.8	- 9.3	+ 1.3	+ 1.0
1974	- 19.0	- 59.0	- 1.3	- 42.0	- 43.7	+ 8.2	- 42.6
1975	+ 2.2	- 19.1	- 4.9	- 14.9	- 16.3	+ 17.4	- 21.9
1976	- 40.9	- 36.0	- 32.2	- 37.9	- 35.9	- 14.1	- 38.9
1977	- 19.0	- 33.2	- 13.0	- 21.4	- 15.0	+ 5.9	- 29.2
1978	- 27.6	- 47.6	- 25.9	- 40.3	- 32.0	- 10.8	- 44.0

Note : minus sign indicates a share price discount; plus sign denotes a share price premium.

Source : Wood, Mackenzie & Co., Composite Insurance Annual Reviews, 1973 - 1978.

## GROUP OF COMPOSITE INSURANCE COMPANIES

## Revenue Account Summaries Short-Term Business 1973-1978 ( £ m)

	1973	1974	1975	1976	1977	1978
Premiums Written less Reinsurance	2,466.1	2,818.4	3,403.1	4,429.4	4,677.6	4,908.5
Increase in Unearned Premiums	(80.7)	(86.3)	(125.1)	(183.9)	(182.3)	(161.1)
Premiums Earned (A)	<u>2,385.4</u>	<u>2,732.1</u>	<u>3,278.0</u>	<u>4,245.5</u>	<u>4,495.3</u>	<u>4,747.4</u>
Claims Incurred	1,619.3	1,939.6	2,371.9	2,995.4	3,072.5	3,205.7
Commission and Expenses	750.3	883.9	1,069.0	1,367.2	1,446.0	1,531.0
Other Items	8.4	3.2	1.7	7.7	7.5	4.2
Claims, Commission and Expenses and Others (B)	<u>2,378.0</u>	<u>2,826.7</u>	<u>3,442.6</u>	<u>4,370.3</u>	<u>4,526.0</u>	<u>4,740.9</u>
Underwriting Result (C) = (A) - (B)	7.4	(94.6)	(164.6)	(124.8)	(30.7)	6.5
Investment Income-gross	220.2	277.2	343.9	461.8	526.7	602.0
less : Interest Payable	(23.3)	(30.5)	(34.7)	(40.6)	(37.8)	(37.8)
Investment Income-net (D)	<u>196.9</u>	<u>246.7</u>	<u>309.2</u>	<u>421.2</u>	<u>488.9</u>	<u>564.2</u>
Life Transfer (E)	15.8	18.5	24.0	28.4	40.9	45.3
Other Income (F)	0.2	0.2	0.2	0.1	0.6	0.6
Profit before Taxes (G) = (C) + (D) + (E) + (F)	220.3	170.8	168.8	324.9	499.7	616.6
Taxation	(87.1)	(69.7)	(65.7)	(120.8)	(187.7)	(248.2)
Profit after Taxes	<u>133.2</u>	<u>101.1</u>	<u>103.1</u>	<u>204.1</u>	<u>312.0</u>	<u>368.4</u>
Minority Interests and Other Items	(5.7)	(6.2)	(5.3)	(7.0)	(11.0)	(9.9)
Profit available to Ordinary Shareholders	<u>127.5</u>	<u>94.9</u>	<u>97.8</u>	<u>197.1</u>	<u>301.0</u>	<u>358.5</u>
Ordinary Dividend	(51.4)	(61.5)	(76.5)	(87.5)	(105.9)	(120.2)
Retained Profit	<u>76.1</u>	<u>33.4</u>	<u>21.3</u>	<u>109.6</u>	<u>195.1</u>	<u>238.3</u>

## COMMERCIAL UNION

## Revenue Account Summaries Short-Term Business 1973-1978 ( £ m)

	1973	1974	1975	1976	1977	1978
Premiums Written less Reinsurance	642.2	766.4	922.6	1,148.9	1,072.5	1,100.7
Increase in Unearned Premiums	(16.1)	(22.1)	(37.9)	(23.3)	(28.7)	(29.8)
Premiums Earned (A)	626.1	744.3	884.7	1,125.6	1,043.8	1,070.9
Claims Incurred	430.5	517.4	684.5	818.2	720.7	717.2
Commission and Expenses	195.5	241.9	296.6	365.3	344.3	356.6
Other Items	5.6	0.4	(2.3)	1.9	(0.3)	(5.8)
Claims, Commission and Expenses and Others (B)	631.6	759.7	978.8	1,185.4	1,064.7	1,068.0
Underwriting Result (C) = (A) - (B)	(5.5)	(15.4)	(94.1)	(59.8)	(20.9)	2.9
Investment Income-gross	62.1	81.5	99.9	123.9	127.7	143.3
less : Interest Payable	(15.5)	(19.0)	(22.0)	(24.7)	(21.2)	(19.0)
Investment Income-net (D)	46.6	62.5	77.9	99.2	106.5	124.3
Life Transfer (E)	2.7	3.1	6.0	7.9	14.2	15.0
Profit before Taxes (F) = (C) + (D) + (E)	43.8	50.2	(10.2)	47.3	99.8	142.2
Taxation	(16.7)	(21.4)	6.8	(12.4)	(31.1)	(53.6)
Profit after Taxes	27.1	28.8	(3.4)	34.9	68.7	88.6
Minority Interests and Preference Dividends	(0.8)	(0.2)	(0.2)	(0.9)	(1.2)	(0.9)
Profit available to Ordinary Shareholders	26.3	28.6	(3.6)	34.0	67.5	87.7
Ordinary Dividend	(12.5)	(18.3)	(21.3)	(21.5)	(30.1)	(35.0)
Retained Profit	13.8	10.3	(24.9)	12.5	37.4	52.7

## EAGLE STAR

## Revenue Account Summaries Short-Term-Business 1973-1978 ( £ m)

	1973	1974	1975	1976	1977	1978
Premiums Written less Reinsurance	158.9	176.1	201.0	258.2	315.0	363.9
Increase in Unearned Premiums	(10.6)	(7.6)	(6.5)	(14.5)	(22.3)	(18.2)
Premiums Earned (A)	148.3	168.5	194.5	243.7	292.7	345.7
Claims Incurred	100.7	117.4	132.7	170.6	203.2	248.8
Commission and Expenses	48.6	54.5	64.5	80.3	93.8	107.0
Other Items	2.2	2.4	3.5	5.7	6.9	8.6
Claims, Commission and Expenses (B)	151.5	174.3	200.7	256.6	303.9	364.4
<b>Underwriting Result (C) = (A) - (B)</b>	<b>(3.2)</b>	<b>(5.8)</b>	<b>(6.2)</b>	<b>(12.9)</b>	<b>(11.2)</b>	<b>(18.7)</b>
Investment Income-gross	17.2	22.2	27.1	40.5	47.8	61.2
less : Interest Payable	(0.8)	(0.9)	(1.0)	(1.7)	(1.1)	(1.0)
Investment Income-net (D)	16.4	21.3	26.1	38.8	46.7	60.2
Life Transfer (E)	4.9	5.3	6.2	7.0	8.0	9.4
<b>Profit before Taxes (F) = (C) + (D) + (E)</b>	<b>18.1</b>	<b>20.8</b>	<b>26.1</b>	<b>32.9</b>	<b>43.5</b>	<b>50.9</b>
Taxation	(10.0)	(10.7)	(11.8)	(14.3)	(15.7)	(21.5)
Profit after Taxes	8.1	10.1	14.3	18.6	27.8	29.4
Minority Interests, Preference Dividends and Other Items	(0.9)	(1.3)	(0.9)	(1.3)	(1.3)	(3.0)
<b>Profit available to Ordinary Shareholders</b>	<b>7.2</b>	<b>8.8</b>	<b>13.4</b>	<b>17.3</b>	<b>26.5</b>	<b>26.4</b>
Ordinary Dividend	(4.0)	(4.3)	(6.0)	(7.3)	(8.3)	(9.2)
Retained Profit	3.2	4.5	7.4	10.0	18.2	17.2

## GENERAL ACCIDENT

## Revenue Account Summaries Short-Term Business 1973-1978 ( £m)

	1973	1974	1975	1976	1977	1978
Premiums Written less Reinsurance	333.8	372.8	471.7	620.3	674.6	745.8
Increase in Unearned Premiums	(13.1)	(13.9)	(26.1)	(36.8)	(35.2)	(32.3)
Premiums Earned (A)	<u>320.7</u>	<u>358.9</u>	<u>445.6</u>	<u>583.5</u>	<u>639.4</u>	<u>713.5</u>
Claims Incurred	209.3	260.9	332.6	420.8	452.7	497.3
Commission and Expenses	99.8	111.5	138.7	180.3	193.0	215.1
Claims, Commission and Expenses (B)	<u>309.1</u>	<u>372.4</u>	<u>471.3</u>	<u>601.1</u>	<u>645.7</u>	<u>712.4</u>
Underwriting Result (C) = (A) — (B)	11.6	(13.5)	(25.7)	(17.6)	(6.3)	1.1
Investment Income-gross	28.4	35.0	42.3	60.0	75.3	86.3
less : Interest Payable	(1.5)	(1.6)	(1.6)	(1.7)	(1.5)	(1.5)
Investment Income-net (D)	<u>26.9</u>	<u>33.4</u>	<u>40.7</u>	<u>58.3</u>	<u>73.8</u>	<u>86.8</u>
Life Transfer (E)	1.5	1.5	1.8	1.9	2.7	2.2
Profit before Taxes (F) = (C) + (D) + (E)	40.0	21.4	16.8	42.6	70.2	90.1
Taxation	(13.0)	(6.1)	(3.6)	(11.9)	(21.2)	(29.7)
Profit after Taxes	<u>27.0</u>	<u>15.3</u>	<u>13.2</u>	<u>30.7</u>	<u>49.0</u>	<u>60.4</u>
Minority Interests, Preference Dividends and Other Items	(1.4)	(0.6)	(1.2)	(0.6)	(1.2)	(1.0)
Profit available to Ordinary Shareholders	<u>25.6</u>	<u>14.7</u>	<u>12.0</u>	<u>30.1</u>	<u>47.8</u>	<u>59.4</u>
Ordinary Dividend	(6.1)	(6.7)	(7.3)	(10.8)	(13.4)	(14.8)
Retained Profit	<u>19.5</u>	<u>8.0</u>	<u>4.7</u>	<u>19.3</u>	<u>34.4</u>	<u>44.6</u>

## GUARDIAN ROYAL EXCHANGE ASSURANCE

## Revenue Account Summaries Short-Term Business 1973-1978 (£ m)

	1973	1974	1975	1976	1977	1978
Premiums Written less Reinsurance	332.9	368.5	427.1	560.7	591.5	619.7
Increase in Unearned Premiums	(5.5)	(6.6)	(13.9)	(25.1)	(25.6)	(18.0)
Premiums Earned (A)	<u>327.4</u>	<u>361.9</u>	<u>413.2</u>	<u>535.6</u>	<u>565.9</u>	<u>601.7</u>
Claims Incurred	227.2	257.5	276.7	356.9	391.6	409.5
Commission and Expenses	<u>98.9</u>	<u>111.9</u>	<u>134.4</u>	<u>174.9</u>	<u>180.9</u>	<u>187.4</u>
Claims, Commission and Expenses (B)	<u>326.1</u>	<u>369.4</u>	<u>411.1</u>	<u>531.8</u>	<u>572.5</u>	<u>596.9</u>
Underwriting Result (C) = (A) - (B)	1.3	(7.5)	2.1	3.8	(6.6)	4.8
Investment Income-gross	32.6	38.0	49.2	58.5	65.3	77.1
less : Interest Payable	<u>(4.5)</u>	<u>(6.7)</u>	<u>(6.7)</u>	<u>(6.7)</u>	<u>(6.4)</u>	<u>(6.7)</u>
Investment Income-net (D)	<u>28.1</u>	<u>31.3</u>	<u>42.5</u>	<u>51.8</u>	<u>58.9</u>	<u>70.4</u>
Life Transfer (E)	2.9	4.3	5.0	5.5	6.5	8.1
Profit before Taxes (F) = (C) + (D) + (E)	32.3	28.1	49.6	61.1	58.8	83.3
Taxation	<u>(15.1)</u>	<u>(14.2)</u>	<u>(24.7)</u>	<u>(28.6)</u>	<u>(28.4)</u>	<u>(40.9)</u>
Profit after Taxes	<u>17.2</u>	<u>13.9</u>	<u>24.9</u>	<u>32.5</u>	<u>30.4</u>	<u>42.4</u>
Minority Interests and Preference Dividends	<u>(0.9)</u>	<u>(0.6)</u>	<u>(0.6)</u>	<u>(1.4)</u>	<u>(1.9)</u>	<u>(1.1)</u>
Profit available to Ordinary Shareholders	<u>16.3</u>	<u>13.3</u>	<u>24.3</u>	<u>31.1</u>	<u>28.5</u>	<u>41.3</u>
Ordinary Dividend	<u>(6.8)</u>	<u>(7.8)</u>	<u>(10.4)</u>	<u>(11.5)</u>	<u>(12.9)</u>	<u>(14.6)</u>
Retained Profit	9.5	5.5	13.9	19.6	15.6	26.7



## PHOENIX ASSURANCE

## Revenue Account Summaries Short-Term Business 1973-1978 ( £m)

	1973	1974	1975	1976	1977	1978
Premiums Written less Reinsurance	161.9	174.5	245.5	323.4	323.0	337.6
Increase in Unearned Premiums	(6.5)	(3.1)	(5.8)	(13.7)	(11.0)	(10.3)
Premiums Earned (A)	155.4	171.4	239.7	309.7	312.0	327.3
Claims Incurred	106.8	127.4	172.8	226.5	221.6	231.3
Commission and Expenses	46.1	50.8	74.2	92.6	91.4	98.7
Other Items	0.6	0.4	0.5	0.1	0.9	1.4
Claims, Commission & Expenses and Others (B)	153.5	178.6	247.5	319.2	313.9	331.4
Underwriting Result (C) = (A) - (B)	1.9	(7.2)	(7.8)	(9.5)	(1.9)	(4.1)
Investment Income-gross	13.0	17.7	26.1	36.3	41.6	47.2
less : Interest Payable	(0.6)	(1.3)	(1.8)	(4.1)	(5.7)	(7.7)
Investment Income-net (D)	12.4	16.4	24.3	32.2	35.9	39.5
Life Transfer (E)	1.4	1.5	1.7	1.8	1.9	2.2
Profit before Taxes (F) = (C) + (D) + (E)	15.7	10.7	18.2	24.5	35.9	37.6
Taxation	(5.8)	(3.7)	(5.1)	(9.6)	(9.4)	(11.9)
Profit after Taxes	9.9	7.0	13.1	14.9	26.5	25.7
Minority Interests and Others	(1.3)	(1.2)	(2.0)	(2.3)	(2.4)	(2.9)
Profit available to Ordinary Shareholders	8.6	5.8	11.1	12.6	24.1	22.8
Ordinary Dividend	(2.9)	(3.6)	(4.9)	(5.4)	(6.3)	(7.0)
Retained Profit	5.7	2.2	6.2	7.2	17.8	15.8

## ROYAL INSURANCE

## Revenue Account Summaries Short-Term Business 1973-1978 ( £m)

	1973	1974	1975	1976	1977	1978
Premiums Written less Reinsurance	574.7	663.9	786.9	1,091.8	1,235.5	1,220.1
Increase in Unearned Premiums	(16.7)	(22.2)	(21.7)	(54.9)	(43.4)	(31.4)
Premiums Earned (A)	558.0	641.7	765.2	1,036.9	1,192.1	1,188.7
Claims Incurred	382.5	463.2	548.5	717.6	784.0	764.9
Commission and Expenses	180.5	218.3	249.1	337.1	393.0	398.4
Claims, Commission and Expenses (B)	563.0	681.5	797.6	1,054.7	1,177.0	1,163.3
Underwriting Result (C) = (A) - (B)	(5.0)	(39.8)	(32.4)	(17.8)	15.1	25.4
Investment Income-gross	44.8	53.8	64.8	95.8	116.0	125.0
less : Interest Payable	(0.2)	(0.8)	(1.4)	(1.5)	(1.7)	(1.8)
Investment Income-net (D)	44.6	53.0	63.4	94.3	114.3	123.2
Life Transfer (E)	1.3	1.7	1.7	2.2	4.4	4.4
Profit before Taxes (F) = (C) + (D) + (E)	40.9	14.9	32.7	78.7	133.8	153.0
Taxation	(14.7)	(4.3)	(11.4)	(28.1)	(56.3)	(64.5)
Profit after Taxes	26.2	10.6	21.3	50.6	77.5	88.5
Minority Interests and Other Items	(0.1)	(—)	(0.2)	(0.4)	(2.8)	(0.7)
Profit available to Ordinary Shareholders	26.1	10.6	21.1	50.2	74.7	87.8
Ordinary Dividend	(13.9)	(15.1)	(18.5)	(22.1)	(24.9)	(28.4)
Retained Profit	12.2	(4.5)	2.6	28.1	49.8	59.4

## SUN ALLIANCE AND LONDON INSURANCE

## Revenue Account Summaries Short-Term Business 1973-1978 ( £m)

	1973	1974	1975	1976	1977	1978
Premiums Written less Reinsurance	261.7	296.2	348.3	426.1	465.5	520.7
Increase in Unearned Premiums	(12.2)	(10.8)	(13.2)	(15.6)	(16.1)	(21.1)
Premiums Earned (A)	249.5	285.4	335.1	410.5	449.4	499.6
Claims Incurred	162.3	195.8	224.1	284.8	298.7	336.7
Commission and Expenses	80.9	95.0	111.5	136.7	149.6	167.8
Claims, Commission and Expenses (B)	243.2	290.8	335.6	421.5	448.3	504.5
Underwriting Result (C) = (A) - (B)	6.3	(5.4)	(0.5)	(11.0)	1.1	(4.9)
Investment Income-gross	22.1	29.0	34.5	46.8	53.0	59.9
less : Interest Payable	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)
Investment Income-net (D)	21.9	28.8	34.3	46.6	52.8	59.8
Life Transfer (E)	1.1	1.1	1.6	2.1	3.2	4.0
Other Income (F)	0.2	0.2	0.2	0.1	0.6	0.6
Profit before Taxes (G) = (C) + (D) + (E) + (F)	29.5	24.7	35.6	37.8	57.7	59.5
Taxation	(11.8)	(9.3)	(15.9)	(15.9)	(25.6)	(26.1)
Profit after Taxes	17.7	15.4	19.7	21.9	32.1	33.4
Minority Interests and Other Items	(0.3)	(2.3)	(0.2)	(0.1)	(0.2)	(0.3)
Profit available to Ordinary Shareholders	17.4	13.1	19.5	21.8	31.9	33.1
Ordinary Dividend	(5.2)	(5.7)	(8.1)	(8.9)	(10.0)	(11.2)
Retained Profit	12.2	7.4	11.4	12.9	21.9	21.9

## COMMERCIAL UNION

## Balance Sheet Summaries Short-Term Business 1973-1978 (£m)

	1973	1974	1975	1976	1977	1978
Capital and Reserves						
— Capital	52.6	78.6	79.7	79.7	104.4	104.4
— Reserves	107.2	143.6	229.2	231.7	347.4	384.5
	159.8	222.2	308.9	311.4	451.8	488.9
— Adjustment of Investments to Market Value	104.7	-16.4	77.7	106.1	145.8	174.8
	264.5	205.8	386.6	417.5	597.6	663.7
Minority Interests	5.1	1.6	4.0	5.7	7.2	7.6
Loan Capital	207.1	217.1	224.7	278.1	235.3	214.2
Unearned Premiums	320.8	337.3	403.3	489.2	467.7	478.4
Outstanding Claims	587.5	643.5	789.3	995.8	927.8	945.2
Other Current Liabilities	87.5	109.9	58.3	151.1	205.6	209.5
	1,472.5	1,515.2	1,866.2	2,337.4	2,441.2	2,518.6
Fixed Interest Securities	477.9	504.8	606.1	854.9	989.2	978.8
Mortgages	130.9	166.9	213.5	271.0	286.8	345.9
Ordinary Shares	323.5	179.5	334.2	347.3	346.3	325.3
Property	213.7	165.5	203.5	240.9	218.0	241.4
Agents' Balances etc.	243.0	284.0	340.1	410.5	390.8	402.3
Cash and Deposits	83.5	214.5	168.8	212.8	210.1	224.9
	1,472.5	1,515.2	1,866.2	2,337.4	2,441.2	2,518.6

## EAGLE STAR

## Balance Sheet Summaries Short-Term Business 1973-1978 (£ m)

	1973	1974	1975	1976	1977	1978
Capital and Reserves						
— Capital	25.5	25.5	35.6	35.6	33.6	33.6
— Reserves	26.1	12.0	47.5	56.6	73.9	89.2
	<u>51.6</u>	<u>37.5</u>	<u>83.1</u>	<u>92.2</u>	<u>107.5</u>	<u>122.8</u>
Minority Interests	6.4	7.5	6.6	7.2	6.8	6.9
Loan Capital	8.1	9.8	14.3	16.4	12.9	11.6
Unearned Premiums	84.8	93.4	105.5	133.1	159.5	179.9
Outstanding Claims	119.3	142.8	166.3	213.3	255.8	313.7
Other Current Liabilities	42.7	36.6	52.1	75.6	80.4	87.9
	<u>312.9</u>	<u>327.6</u>	<u>427.9</u>	<u>537.8</u>	<u>622.9</u>	<u>722.8</u>
Fixed Interest Securities	69.5	59.2	89.9	152.8	210.8	255.7
Mortgages	32.6	39.1	22.9	25.5	24.5	25.9
Ordinary Shares	91.7	76.0	103.9	141.6	180.6	219.2
Property	18.4	27.7	31.4	48.0	49.1	50.5
Agents' Balances etc.	65.2	70.3	106.2	99.9	121.3	137.5
Cash and Deposits	35.5	55.3	73.6	70.0	36.6	34.0
	<u>312.9</u>	<u>327.6</u>	<u>427.9</u>	<u>537.8</u>	<u>622.9</u>	<u>722.8</u>

## GENERAL ACCIDENT

## Balance Sheet Summaries Short-Term Business 1973-1978 (£ m)

	1973	1974	1975	1976	1977	1978
Capital and Reserves						
— Capital	31.5	31.5	32.1	41.2	41.2	41.2
— Reserves	87.2	92.2	95.2	148.3	182.7	227.2
	<u>118.7</u>	<u>123.7</u>	<u>127.3</u>	<u>189.5</u>	<u>223.9</u>	<u>268.4</u>
Minority Interests	1.3	1.7	1.9	2.3	3.8	3.8
Loan Capital	13.4	13.4	17.4	18.1	17.5	17.1
Unearned Premiums	155.0	170.0	207.0	267.6	284.8	309.1
Outstanding Claims	202.7	246.2	319.0	428.8	493.3	563.5
Other Current Liabilities	45.7	47.1	54.2	70.1	82.7	101.4
	<u>536.6</u>	<u>602.1</u>	<u>726.6</u>	<u>976.4</u>	<u>1,106.0</u>	<u>1,263.3</u>
Fixed Interest Securities	221.2	223.2	271.9	419.2	547.8	619.8
Mortgages	11.7	14.0	15.0	17.3	17.7	19.2
Ordinary Shares	147.4	154.3	185.8	206.5	226.8	258.0
Property	17.3	27.9	50.2	55.2	63.2	92.0
Agents' Balances etc.	71.6	90.6	111.0	152.1	160.4	185.4
Cash and Deposits	57.6	85.1	92.9	126.1	90.1	88.9
	<u>526.8</u>	<u>595.1</u>	<u>726.8</u>	<u>976.4</u>	<u>1,106.0</u>	<u>1,263.3</u>
Goodwill	10.0	7.0	-	-	-	-
	<u>536.8</u>	<u>602.1</u>	<u>726.8</u>	<u>976.4</u>	<u>1,106.0</u>	<u>1,263.3</u>

## GUARDIAN ROYAL EXCHANGE ASSURANCE

## Balance Sheet Summaries Short-Term Business 1973-1978 (£ m)

	1973	1974	1975	1976	1977	1978
Capital and Reserves						
— Capital	28.0	28.2	34.7	34.7	34.7	34.7
— Reserves	65.8	59.5	102.7	124.2	148.6	174.5
	<u>93.8</u>	<u>87.7</u>	<u>137.4</u>	<u>158.9</u>	<u>183.3</u>	<u>209.2</u>
— Adjustment of Investments to Market Value	89.4	21.4	85.6	102.2	121.1	128.4
	<u>183.2</u>	<u>109.1</u>	<u>223.0</u>	<u>261.1</u>	<u>304.4</u>	<u>337.6</u>
Minority Interests	10.8	10.3	10.9	16.1	13.1	17.0
Loan Capital	59.4	61.3	62.7	62.8	58.1	52.0
Unearned Premiums	118.3	126.0	146.4	186.7	194.0	210.2
Outstanding Claims	276.2	334.0	369.9	483.4	511.9	570.2
Other Current Liabilities	103.9	104.2	137.0	155.4	174.3	204.7
	<u>751.8</u>	<u>744.9</u>	<u>949.9</u>	<u>1,165.5</u>	<u>1,255.8</u>	<u>1,391.7</u>
Fixed Interest Securities	105.3	104.9	170.2	239.4	354.7	393.7
Mortgages	63.1	73.6	86.7	110.7	105.6	107.4
Ordinary Shares	196.3	106.5	205.9	203.8	212.9	215.4
Property	173.6	174.2	174.3	198.3	216.4	232.2
Agents' Balances etc.	166.1	184.2	212.6	272.3	280.1	319.6
Cash and Deposits	47.4	101.5	100.2	141.0	86.1	123.4
	<u>751.8</u>	<u>744.9</u>	<u>949.9</u>	<u>1,165.5</u>	<u>1,255.9</u>	<u>1,391.7</u>

## PHOENIX ASSURANCE

## Balance Sheet Summaries Short-Term Business 1973-1978 (£ m)

	1973	1974	1975	1976	1977	1978
Capital and Reserves						
— Capital	10.2	11.7	14.7	14.7	15.1	15.1
— Reserves	45.5	44.9	68.5	75.7	96.0	111.8
	<u>55.7</u>	<u>56.6</u>	<u>83.2</u>	<u>90.4</u>	<u>111.1</u>	<u>126.9</u>
Minority Interests	6.4	7.6	9.3	11.8	11.8	14.4
Loan Capital	14.1	18.5	23.0	51.1	58.3	61.6
Unearned Premiums	82.2	89.8	139.1	182.8	176.7	182.2
Outstanding Claims	96.3	107.4	147.9	182.6	190.8	208.0
Other Current Liabilities	41.1	44.2	73.3	86.0	81.8	99.2
	<u>296.8</u>	<u>324.1</u>	<u>475.8</u>	<u>604.7</u>	<u>630.5</u>	<u>692.3</u>
Fixed Interest Securities	79.7	78.0	140.9	194.6	240.4	257.6
Mortgages	11.1	15.6	24.8	38.5	41.3	34.9
Ordinary Shares	80.0	66.5	78.1	86.5	93.0	103.8
Property	32.1	51.2	54.9	63.1	70.7	99.6
Agents' Balances etc.	68.9	78.0	119.7	147.8	130.1	144.4
Cash and Deposits	25.0	34.8	57.4	74.2	55.0	52.0
	<u>296.8</u>	<u>324.1</u>	<u>475.8</u>	<u>604.7</u>	<u>630.5</u>	<u>692.3</u>



## ROYAL INSURANCE

## Balance Sheet Summaries Short-Term Business 1973-1978 (£m)

	1973	1974	1975	1976	1977	1978
Capital and Reserves						
— Capital	30.1	30.1	37.6	37.6	37.6	37.6
— Reserves	175.9	176.0	236.9	260.8	316.4	374.7
	<u>206.9</u>	<u>206.1</u>	<u>274.5</u>	<u>298.4</u>	<u>354.0</u>	<u>412.3</u>
— Adjustment of Investments to Market Value	156.0	- 81.3	88.8	166.6	168.0	122.8
	<u>361.9</u>	<u>124.8</u>	<u>363.3</u>	<u>465.0</u>	<u>522.0</u>	<u>535.1</u>
Minority Interests	1.0	0.9	0.8	1.3	2.0	1.8
Loan Capital	4.9	4.5	4.5	4.4	4.3	4.2
Unearned Premiums	227.6	249.0	295.2	391.8	393.0	395.8
Outstanding Claims	464.9	530.1	680.5	904.9	931.3	972.2
Other Current Liabilities	72.8	97.9	137.0	163.5	201.5	210.9
	<u>1,133.1</u>	<u>1,007.2</u>	<u>1,481.3</u>	<u>1,935.9</u>	<u>2,054.1</u>	<u>2,130.0</u>
Fixed Interest Securities	365.9	422.3	658.6	966.0	1,050.8	1,144.3
Mortgages	15.5	19.1	23.7	33.0	33.5	21.5
Ordinary Shares	330.5	320.6	291.2	266.0	271.0	266.4
Property	48.9	55.6	62.3	69.8	66.9	96.5
Agents' Balances etc.	180.3	218.9	272.5	354.8	356.6	349.0
Cash and Deposits	35.7	51.8	84.1	79.5	87.0	88.3
	<u>976.8</u>	<u>1,088.2</u>	<u>1,392.4</u>	<u>1,769.1</u>	<u>1,885.8</u>	<u>1,986.0</u>
Adjustment of Investments to Market Value	156.3	- 81.0	88.9	166.8	168.3	124.0
	<u>1,133.1</u>	<u>1,007.2</u>	<u>1,481.3</u>	<u>1,935.9</u>	<u>2,054.1</u>	<u>2,120.0</u>

## SUN ALLIANCE AND LONDON INSURANCE

## Balance Sheet Summaries Short-Term Business 1973-1978 (£m)

	1973	1974	1975	1976	1977	1978
Capital and Reserves						
— Capital	37.0	37.0	49.3	49.3	49.3	49.3
— Reserves	43.5	50.2	88.6	101.5	124.6	146.5
	<u>80.5</u>	<u>87.2</u>	<u>137.9</u>	<u>150.8</u>	<u>173.9</u>	<u>195.8</u>
Minority Interests	1.6	1.7	1.8	1.7	3.2	3.5
Loan Capital	2.2	2.2	2.1	2.0	1.8	1.7
Unearned Premiums	143.1	155.9	180.5	219.9	225.4	245.5
Outstanding Claims	138.3	171.4	205.5	272.5	295.6	333.1
Other Current Liabilities	73.3	68.8	81.2	101.1	112.2	122.0
	<u>439.0</u>	<u>487.2</u>	<u>609.0</u>	<u>748.0</u>	<u>812.1</u>	<u>902.5</u>
Fixed Interest Securities	124.6	141.2	195.0	228.1	281.9	317.2
Mortgages	8.7	9.5	9.1	11.3	12.8	14.5
Ordinary Shares	107.9	100.3	130.3	160.1	166.4	178.9
Property	33.1	50.9	64.8	85.9	95.2	117.1
Agents' Balances etc.	108.3	121.6	142.6	167.4	169.0	187.3
Cash and Deposits	56.4	63.6	67.2	95.2	86.8	87.5
	<u>439.0</u>	<u>487.2</u>	<u>609.0</u>	<u>748.0</u>	<u>812.1</u>	<u>902.5</u>

## COMMERCIAL UNION

## Percentage Distribution of Short-Term Funds over Asset Categories 1973-1978

	1973	1974	1975	1976	1977	1978
Fixed Interest Securities	32.5	33.3	32.5	36.5	40.5	38.9
Mortgages etc.	8.9	11.0	11.4	11.6	11.8	13.7
Ordinary Shares	22.0	11.9	17.9	14.8	14.2	12.9
Property	14.5	10.9	10.9	10.3	8.9	9.6
Agents' Balances etc.	16.5	18.7	18.2	17.6	16.0	16.0
Cash and Deposits	5.6	14.2	9.1	9.1	8.6	8.9
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Note : Valuation of assets at market value.

## EAGLE STAR

## Percentage Distribution of Short-Term Funds over Asset Categories 1973-1978

	1973	1974	1975	1976	1977	1978
Fixed Interest Securities	22.2	18.1	21.0	28.4	33.8	35.4
Mortgages etc.	10.4	11.9	5.4	4.8	3.9	3.6
Ordinary Shares	29.3	23.2	24.3	26.3	29.0	30.3
Property	5.9	8.5	7.3	8.9	7.9	7.0
Agents' Balances etc.	20.8	21.4	24.8	18.6	19.5	19.0
Cash and Deposits	11.4	16.9	17.2	13.0	5.9	4.7
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

## GENERAL ACCIDENT

## Percentage Distribution of Short-Term Funds over Asset Categories 1973-1978

	1973	1974	1975	1976	1977	1978
Fixed Interest Securities	42.0	37.5	37.4	42.9	49.5	49.1
Mortgages etc.	2.2	2.4	2.1	1.8	1.6	1.5
Ordinary Shares	28.0	25.9	25.5	21.1	20.5	20.4
Property	3.3	4.7	6.9	5.7	5.7	7.3
Agents' Balances etc.	13.6	15.2	15.3	15.6	14.5	14.7
Cash and Deposits	10.9	14.3	12.8	12.9	8.2	7.0
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

## GUARDIAN ROYAL EXCHANGE

## Percentage Distribution of Short-Term Funds over Asset Categories 1973-1978

	1973	1974	1975	1976	1977	1978
Fixed Interest Securities	14.0	14.1	17.9	20.5	28.2	28.3
Mortgages etc.	8.4	9.9	9.1	9.5	8.4	7.7
Ordinary Shares	26.1	14.3	21.7	17.5	17.0	15.5
Property	23.1	23.4	18.3	17.0	17.2	16.7
Agents' Balances etc.	22.1	24.7	22.4	23.4	22.3	23.0
Cash and Deposits	6.3	13.6	10.6	12.1	6.9	8.8
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

## PHOENIX

## Percentage Distribution of Short-Term Funds over Asset Categories 1973-1978

	1973	1974	1975	1976	1977	1978
Fixed Interest Securities	26.9	24.1	29.6	32.2	38.1	37.2
Mortgages etc.	3.7	4.8	5.2	6.4	6.6	5.0
Ordinary Shares	27.0	20.5	16.4	14.3	14.8	15.0
Property	10.8	15.8	11.5	10.4	11.2	14.4
Agents' Balances etc.	23.2	24.1	25.2	24.4	20.6	20.9
Cash and Deposits	8.4	10.7	12.1	12.3	8.7	7.5
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

## ROYAL

## Percentage Distribution of Short-Term Funds over Asset Categories 1973-1978

	1973	1974	1975	1976	1977	1978
Fixed Interest Securities	37.5	38.8	47.3	54.6	55.7	57.3
Mortgages etc.	1.6	1.8	1.7	1.9	1.8	1.6
Ordinary Shares	33.8	29.4	20.9	15.0	14.4	14.4
Property	5.0	5.1	4.5	3.9	4.6	4.8
Agents' Balances etc.	18.5	20.1	19.6	20.1	18.9	17.5
Cash and Deposits	3.6	4.8	6.0	4.5	4.6	4.4
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>



## SUN ALLIANCE AND LONDON

## Percentage Distribution of Short-Term Funds over Asset Categories 1973-1978

	1973	1974	1975	1976	1977	1978
Fixed Interest Securities	28.4	29.0	32.0	30.5	34.7	35.1
Mortgages etc.	2.0	2.0	1.5	1.5	1.6	1.6
Ordinary Shares	24.6	20.6	21.4	21.4	20.5	19.8
Property	7.5	10.4	10.7	11.5	11.7	13.0
Agents' Balances etc.	24.7	25.0	23.4	22.4	20.8	20.8
Cash and Deposits	12.8	13.0	11.0	12.7	10.7	9.7
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

## COMMERCIAL UNION

## Revenue Account Summaries Long-Term Business 1973-1978 (£ m)

	1973	1974	1975	1976	1977	1978
1. Premium Income	111.4	187.8	202.5	258.2	258.3	280.7
2. Investment Income	63.5	98.2	113.2	147.7	163.3	189.3
Total 1 and 2 (A)	174.9	286.0	315.7	405.9	421.6	470.0
3. Claims Outgo	73.5	122.7	138.0	173.2	153.3	165.8
4. Commission and Expenses	26.5	43.4	52.4	67.5	69.1	74.9
5. Taxation	3.8	5.9	7.8	8.3	8.7	9.1
6. Transfer to Shareholders' Funds	3.6	6.2	3.5	20.9	8.9	9.3
Total 3, 4, 5 and 6 (B)	107.4	178.2	201.7	269.9	240.0	259.1
7. Cash Flow (= A minus B)	67.5	107.8	114.0	136.0	181.6	210.9

## Balance Sheet Summaries Long-Term Business 1973-1978 (£ m)

	1973	1974	1975	1976	1977	1978
Long-Term Funds	1,231.0	1,219.9	1,537.2	1,872.8	1,972.7	2,278.2
Other Liabilities	59.8	61.8	84.8	144.3	137.7	140.1
	1,290.8	1,281.7	1,622.0	2,017.1	2,110.4	2,418.3
Fixed Interest Securities	366.4	256.8	381.5	452.5	495.2	556.5
Mortgages	441.8	497.1	562.9	756.2	797.6	937.3
Ordinary Shares	223.9	180.8	261.9	293.4	302.5	360.9
Property	158.2	196.1	227.1	313.2	339.4	385.1
Agents' Balances etc.	56.1	65.3	63.7	87.9	91.6	104.4
Cash and Deposits	44.4	85.6	124.9	113.9	84.1	74.1
	1,290.8	1,281.7	1,622.0	2,017.1	2,110.4	2,418.3

## EAGLE STAR

## Revenue Account Summaries Long-Term Business 1973-1978 (£m)

	1973	1974	1975	1976	1977	1978
1. Premium Income	60.8	73.7	76.4	106.3	167.1	152.2
2. Investment Income	44.3	50.9	57.3	68.8	83.0	103.4
Total 1 and 2 (A)	105.1	124.6	133.7	175.1	250.1	255.6
3. Claims Outgo	44.3	55.8	63.9	63.5	83.1	105.8
4. Commission and Expenses	6.0	7.3	9.6	12.1	16.4	19.6
5. Taxation	2.2	1.6	3.2	2.5	1.3	6.2
6. Transfer to Shareholders' Funds	5.9	3.1	3.5	4.0	4.5	5.4
Total 3, 4, 5 and 6 (B)	58.4	67.8	80.2	82.1	105.3	137.0
7. Cash Flow (= A minus B)	46.7	56.8	53.5	93.0	144.8	118.6

## Balance Sheet Summaries Long-Term Business 1973-1978 (£m)

	1973	1974	1975	1976	1977	1978
Long-Term Funds	590.2	643.7	688.6	777.2	932.1	1,049.1
Other Liabilities	13.5	5.9	13.0	17.2	12.2	37.7
	603.7	649.6	701.6	794.4	944.3	1,086.8
Fixed Interest Securities	249.3	216.1	309.0	318.6	423.7	514.7
Mortgages	153.1	156.5	176.0	175.5	178.8	192.2
Ordinary Shares	152.5	175.9	123.4	144.1	172.2	207.8
Property	25.2	33.4	40.0	85.8	92.0	101.4
Agents' Balances etc.	16.9	26.0	20.5	27.4	31.6	28.1
Cash and Deposits	6.7	41.7	32.7	43.0	46.0	42.6
	603.7	649.6	701.6	794.4	944.3	1,086.8

## GENERAL ACCIDENT

## Revenue Account Summaries Long-Term Business 1973-1978 (£m)

	1973	1974	1975	1976	1977	1978
1. Premium Income	49.8	58.5	64.2	73.4	81.1	85.6
2. Investment Income	25.4	29.0	32.2	37.7	43.0	49.8
Total 1 and 2 (A)	75.2	87.5	96.4	111.1	124.1	135.4
3. Claims Outgo	38.8	42.7	52.8	52.7	59.9	59.9
4. Commission and Expenses	9.0	10.5	12.2	14.6	14.8	16.5
5. Taxation	3.7	3.2	2.6	5.1	4.7	6.5
6. Transfer to Shareholders' Funds	1.5	1.5	1.8	1.9	2.7	2.3
Total 3, 4, 5 and 6 (B)	53.0	57.9	69.4	74.3	82.1	85.2
7. Cash Flow (= A minus B)	22.2	29.6	27.0	36.8	42.0	50.2

## Balance Sheet Summaries Long-Term Business 1973-1978 (£m)

	1973	1974	1975	1976	1977	1978
Long-Term Funds	353.7	319.3	404.3	443.6	484.5	538.6
Other Liabilities	4.0	4.3	4.7	5.5	5.9	7.3
	357.7	323.6	409.0	449.1	490.4	545.9
Fixed Interest Securities	102.9	83.6	113.1	132.3	162.6	212.6
Mortgages	62.6	65.5	63.6	63.3	59.5	58.4
Ordinary Shares	120.7	85.2	130.7	138.4	146.0	151.5
Property	49.8	57.3	72.0	77.1	84.3	94.0
Agents' Balances etc.	8.3	8.5	13.7	11.8	13.5	14.4
Cash and Deposits	13.4	23.5	15.9	26.2	24.5	15.0
	357.7	323.6	409.0	449.1	490.4	545.9

## GUARDIAN ROYAL EXCHANGE ASSURANCE

## Revenue Account Summaries Long-Term Business 1973-1978 (£m)

	1973	1974	1975	1976	1977	1978
1. Premium Income	122.6	146.7	148.9	190.4	198.9	158.8
2. Investment Income	58.9	71.7	75.8	97.2	113.6	102.6
Total 1 and 2 (A)	181.5	218.4	224.7	287.6	312.5	261.4
3. Claims Outgo	79.8	93.3	98.6	112.4	115.4	103.5
4. Commission and Expenses	27.2	36.2	36.1	51.4	55.1	39.8
5. Taxation	6.2	7.9	6.5	7.4	8.3	6.8
6. Transfer to Shareholders' Funds	1.5	2.2	2.6	3.0	3.7	3.9
Total 3, 4, 5 and 6 (B)	114.7	139.6	143.8	174.2	182.5	154.0
7. Cash Flow (= A minus B)	66.8	78.8	80.9	113.4	130.0	107.4

## Balance Sheet Summaries Long-Term Business 1973-1978 (£m)

	1973	1974	1975	1976	1977	1978
Long-Term Funds	853.3	928.1	1,048.7	1,239.2	1,477.3	1,297.3
Other Liabilities	88.8	86.4	109.6	142.8	158.2	76.1
	942.1	1,014.5	1,158.3	1,382.0	1,635.5	1,373.4
Fixed Interest Securities	303.2	377.9	453.2	526.6	672.5	510.6
Mortgages	160.8	157.4	160.6	233.6	240.7	220.6
Ordinary Shares	239.3	141.2	239.0	240.3	314.1	272.7
Property	155.9	182.6	222.6	285.2	316.7	254.4
Agents' Balances etc.	34.4	41.4	43.0	62.0	66.5	76.9
Cash and Deposits	48.5	114.0	39.9	34.3	25.0	38.2
	942.1	1,014.5	1,158.3	1,382.0	1,635.5	1,373.4

## PHOENIX ASSURANCE

## Revenue Account Summaries Long-Term Business 1973-1978 (£m)

	1973	1974	1975	1976	1977	1978
1. Premium Income	42.5	37.1	42.8	50.8	54.1	94.6
2. Investment Income	15.8	17.6	20.0	23.2	29.0	43.5
Total 1 and 2 (A)	<u>58.3</u>	<u>54.7</u>	<u>62.8</u>	<u>74.0</u>	<u>83.1</u>	<u>138.1</u>
3. Claims Outgo	18.0	21.5	24.0	27.4	29.1	54.0
4. Commission and Expenses	10.2	10.4	12.2	14.6	14.4	25.5
5. Taxation	1.6	1.9	0.8	(1.2)	(0.4)	0.8
6. Transfer to Shareholders' Funds	1.0	1.1	1.3	1.3	1.4	1.6
Total 3, 4, 5 and 6 (B)	<u>30.8</u>	<u>34.9</u>	<u>38.3</u>	<u>42.1</u>	<u>44.5</u>	<u>81.9</u>
7. Cash Flow (= A minus B)	27.5	19.8	24.5	31.9	38.6	56.2

## Balance Sheet Summaries Long-Term Business 1973-1978 (£m)

	1973	1974	1975	1976	1977	1978
Long-Term Funds	213.4	204.9	271.3	299.4	411.9	492.7
Other Liabilities	5.6	10.6	12.7	12.3	34.3	39.5
	<u>219.0</u>	<u>215.5</u>	<u>284.0</u>	<u>311.7</u>	<u>446.2</u>	<u>532.2</u>
Fixed Interest Securities	81.7	66.2	88.2	121.6	161.0	190.1
Mortgages	41.4	41.9	49.4	41.5	52.6	56.9
Ordinary Shares	66.6	50.6	91.3	92.3	121.2	134.6
Property	14.9	26.0	25.2	28.4	64.0	85.7
Agents' Balances etc.	10.3	9.7	12.1	13.0	20.4	22.8
Cash and Deposits	4.1	21.1	17.8	14.9	27.0	42.1
	<u>219.0</u>	<u>215.5</u>	<u>284.0</u>	<u>311.7</u>	<u>446.2</u>	<u>532.2</u>

## ROYAL INSURANCE

## Revenue Account Summaries Long-Term Business 1973-1978 (£ m)

	1973	1974	1975	1976	1977	1978
1. Premium Income	65.0	69.4	77.5	89.7	106.3	126.9
2. Investment Income	30.0	37.5	42.5	53.8	67.5	80.6
Total 1 and 2 (A)	95.0	106.9	120.0	143.5	173.8	207.5
3. Claims Outgo	30.4	38.0	39.7	47.9	57.0	57.5
4. Commission and Expenses	11.3	12.3	15.1	19.8	21.5	25.4
5. Taxation	1.1	2.1	2.2	2.5	3.1	5.2
6. Transfer to Shareholders' Funds	—	4.5	—	—	8.6	—
Total 3, 4, 5 and 6 (B)	42.8	56.9	57.0	70.2	90.2	88.1
7. Cash Flow (= A minus B)	52.2	50.0	63.0	73.3	83.6	119.4

## Balance Sheet Summaries Long-Term Business 1973-1978 (£ m)

	1973	1974	1975	1976	1977	1978
Long-Term Funds	434.3	435.6	502.7	580.8	656.8	770.3
Other Liabilities	9.3	18.0	12.8	13.4	19.4	21.5
	443.6	453.6	515.5	594.2	676.2	791.8
Fixed Interest Securities	197.2	197.4	240.5	297.9	377.0	447.4
Mortgages	64.7	76.8	82.4	88.3	89.8	95.2
Ordinary Shares	142.3	112.6	117.1	114.1	103.1	121.7
Property	21.8	39.3	49.8	56.2	59.9	72.0
Agents' Balances etc.	15.7	18.7	22.4	32.4	38.0	45.3
Cash and Deposits	1.9	8.8	3.3	5.3	8.4	10.2
	443.6	453.6	515.5	594.2	676.2	791.8

## SUN ALLIANCE AND LONDON INSURANCE

## Revenue Account Summaries Long-Term Business 1973-1978 (£m)

	1973	1974	1975	1976	1977	1978
1. Premium Income	37.3	38.7	42.4	51.7	98.4	120.7
2. Investment Income	17.7	19.8	25.0	29.6	43.8	51.9
Total 1 and 2 (A)	55.0	58.5	67.4	81.3	142.2	172.6
3. Claims Outgo	21.4	23.3	26.1	27.7	51.3	54.4
4. Commission and Expenses	8.9	9.5	11.5	15.1	27.1	33.1
5. Taxation	1.8	1.9	1.7	1.9	2.1	3.0
6. Transfer to Shareholders' Funds	—	—	2.7	1.3	1.8	2.4
Total 3, 4, 5 and 6 (B)	32.1	34.7	42.0	46.0	82.3	92.9
7. Cash Flow (= A minus B)	22.9	23.8	25.4	35.3	59.9	79.7

## Balance Sheet Summaries Long-Term Business 1973-1978 (£m)

	1973	1974	1975	1976	1977	1978
Long-Term Funds	254.9	277.3	303.5	344.9	500.2	592.6
Other Liabilities	5.1	4.9	7.4	7.8	16.9	21.1
	260.0	282.2	310.9	352.7	517.1	613.7
Fixed Interest Securities	95.4	95.9	118.7	142.4	226.4	278.1
Mortgages	25.0	24.3	23.9	22.5	41.7	43.2
Ordinary Shares	78.7	82.7	89.1	98.2	115.6	140.1
Property	47.6	54.0	60.9	67.0	102.4	110.5
Agents' Balances	6.1	6.8	10.5	11.7	18.8	19.6
Cash and Deposits	7.2	18.5	7.8	10.9	12.2	22.2
	260.0	282.2	310.9	352.7	517.1	613.7



## GROUP OF COMPOSITE INSURANCE COMPANIES

## Margin Analysis (%)

	1973	1974	1975	1976	1977	1978
Underwriting Margin	0.30	(3.36)	(4.84)	(2.82)	(0.66)	0.13
Gross Investment Income Margin	8.93	9.84	10.11	10.43	11.26	12.26
Less : Loan Interest Margin	0.94	1.08	1.02	0.91	0.81	0.76
Net Investment Income Margin	<u>7.99</u>	<u>8.76</u>	<u>9.09</u>	<u>9.52</u>	<u>10.45</u>	<u>11.50</u>
Life Transfer Margin	0.64	0.66	0.71	0.64	0.89	0.93
Pre-Tax Margin	8.93	6.06	4.96	7.34	10.68	12.56

## COMMERCIAL UNION

## Margin Analysis (%)

	1973	1974	1975	1976	1977	1978
Underwriting Margin	(0.86)	(2.01)	(10.20)	(5.20)	(1.95)	0.26
Gross Investment Income Margin	9.67	10.63	10.83	10.78	11.91	13.02
Less : Loan Interest Margin	2.41	2.47	2.37	2.15	1.97	1.72
Net Investment Income Margin	<u>7.26</u>	<u>8.16</u>	<u>8.46</u>	<u>8.63</u>	<u>9.94</u>	<u>11.30</u>
Life Transfer Margin	0.42	0.40	0.65	0.69	1.32	1.36
Pre-Tax Margin	6.82	6.55	(1.09)	4.12	9.31	12.92

## EAGLE STAR

## Margin Analysis (%)

	1973	1974	1975	1976	1977	1978
Underwriting Margin	(2.01)	(3.29)	(3.08)	(5.00)	(3.56)	(5.14)
Gross Investment Income Margin	10.82	12.61	13.48	15.69	15.17	16.82
Less : Loan Interest Margin	0.50	0.52	0.49	0.66	0.34	0.27
Net Investment Income Margin	<u>10.32</u>	<u>12.09</u>	<u>12.99</u>	<u>15.03</u>	<u>14.83</u>	<u>16.55</u>
Life Transfer Margin	3.08	3.01	3.08	2.71	2.54	2.58
Pre-Tax Margin	11.39	11.81	12.99	12.74	13.81	13.99

## GENERAL ACCIDENT

## Margin Analysis (%)

	1973	1974	1975	1976	1977	1978
Underwriting Margin	3.48	(3.62)	(5.45)	(2.84)	(0.93)	0.15
Gross Investment Income Margin	8.51	9.39	8.97	9.67	11.16	11.84
Less : Loan Interest Margin	0.46	0.43	0.34	0.27	0.22	0.20
Net Investment Income Margin	<u>8.05</u>	<u>8.96</u>	<u>8.63</u>	<u>9.40</u>	<u>10.94</u>	<u>11.64</u>
Life Transfer Margin	0.45	0.40	0.38	0.31	0.40	0.29
Pre-Tax Margin	11.98	5.74	3.56	6.87	10.41	12.08

## GUARDIAN ROYAL EXCHANGE ASSURANCE

## Margin Analysis (%)

	1973	1974	1975	1976	1977	1978
Underwriting Margin	0.39	(2.04)	0.49	0.68	(1.12)	0.77
Gross Investment Income Margin	9.79	10.31	11.52	10.43	11.04	12.44
Less : Loan Interest Margin	1.35	1.81	1.57	1.19	1.08	1.08
Net Investment Income Margin	<u>8.44</u>	<u>8.50</u>	<u>9.95</u>	<u>9.24</u>	<u>9.96</u>	<u>11.38</u>
Life Transfer Margin	0.87	1.17	1.17	0.98	1.10	1.31
Pre-Tax Margin	9.70	7.63	11.61	10.90	9.94	13.44

## PHOENIX ASSURANCE

## Margin Analysis (%)

	1973	1974	1975	1976	1977	1978
Underwriting Margin	1.17	(4.13)	(3.18)	(2.94)	(0.59)	(1.21)
Gross Investment Income Margin	8.03	10.14	10.63	11.22	12.88	13.98
Less : Loan Interest Margin	0.36	0.74	0.73	1.26	1.77	2.28
Net Investment Income Margin	<u>7.67</u>	<u>9.40</u>	<u>9.90</u>	<u>9.96</u>	<u>11.11</u>	<u>11.70</u>
Life Transfer Margin	0.86	0.86	0.69	0.56	0.59	0.65
Pre-Tax Margin	9.70	6.13	7.41	7.58	11.11	11.14

## ROYAL INSURANCE

## Margin Analysis (%)

	1973	1974	1975	1976	1977	1978
Underwriting Margin	(0.87)	(5.99)	(4.12)	(1.63)	1.22	2.08
Gross Investment Income Margin	7.80	8.10	8.23	8.77	9.39	10.25
Less : Loan Interest Margin	0.04	0.13	0.17	0.13	0.14	0.15
Net Investment Income Margin	<u>7.76</u>	<u>7.97</u>	<u>8.06</u>	<u>8.64</u>	<u>9.25</u>	<u>10.10</u>
Life Transfer Margin	0.23	0.26	0.22	0.20	0.36	0.36
Pre-Tax Margin	7.12	2.24	4.16	7.21	10.83	12.54

## SUN ALLIANCE AND LONDON INSURANCE

## Margin Analysis (%)

	1973	1974	1975	1976	1977	1978
Underwriting Margin	2.41	(1.82)	(0.14)	(2.58)	0.24	(0.94)
Gross Investment Income Margin	8.44	9.79	9.91	10.98	11.39	11.50
Less : Loan Interest Margin	0.08	0.07	0.07	0.04	0.04	0.02
Net Investment Income Margin	<u>8.36</u>	<u>9.72</u>	<u>9.84</u>	<u>10.94</u>	<u>11.35</u>	<u>11.48</u>
Life Transfer Margin	0.42	0.37	0.46	0.49	0.69	0.77
Other Items	0.08	0.07	0.06	0.02	0.12	0.12
Pre-Tax Margin	11.27	8.34	10.22	8.87	12.40	11.43



## UNDERWRITING RESULTS IN U.S.

### Extracts from the Annual Reports of Commercial Union, Royal and General Accident

#### Commercial Union

##### 1973 (1)

Although the level of underwriting profits of 1972 (£5.0m) could not be maintained in 1973, "we did, however, achieve a satisfactory result despite intense competitive forces in the market, coupled with inflation. Under these conditions we refused to meet competition, particularly for industrial business in cases where, in our judgment, the rates for the risks were not adequate. As a result there has been no material growth in U.S. premiums in 1973. Automobile business has moved from profit into loss, largely due to a marked deterioration in the commercial sections.

Our Liability business, which has been severely pruned, continues to be most unprofitable. Fire business has continued to produce good profits, but at a lower level than that of the previous year, due to competition.

Workmen's Compensation experience has shown a substantial improvement. For the third successive year there were no serious hurricane losses.

Windstorm damage generally was widespread and severe, though less so than in 1972.

Marine business had another profitable year".

##### 1974 (2)

"There has been intense competition for insurance business in the U.S. for the last few years, that has been reflected largely in lower premium levels, particularly for commercial risks.

...

We have continued to desist from rate cutting competition. With costs rising, the ratio of expenses and commissions has grown from 31.9 % to 32.5 % and that of claims from 65.2 % to 72.2 %. There are two main reasons for this increase in claims ratio.

- There was a marked increase in the cost of court awards for personal loss and injury cases in the Public Liability Classes, . . .
- There was also a continuation of the reduction in profitability in the Fire classes that started in 1973 due to competition. Other Accident classes and Marine became unprofitable for the first time for several years . . .".

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(1) Commercial Union, Annual Report 1973, p. 6.

(2) Commercial Union, Annual Report 1974, p. 7.

## Appendix F, 1

## 1975 (3)

"We suffered substantial underwriting losses in both the automobile and general liability classes and a lesser, but nevertheless significant amount in workers' compensation.

... during 1975 the level of motoring in the U.S. returned to that prevailing before the fuel crisis in late 1973. The frequency of accidents and also the number of car thefts, rose. All elements of claims — court and other awards, hospital and other medical services, and physical damage — increased. Consequently there was an inadequacy in our automobile rates in the U.S. as a whole of about 18 cents in every dollar of premium, compared with a near break-even position in 1974.

General liability results were again very bad with rates in 1975 being substantially below what was needed to pay for certain types of claims and expenses in this class of business. There was some increase in the frequency of claims in 1975 due, to some extent, to the general economic conditions, and court and other awards increased on account of inflation to a greater degree than we had thought likely. Consequently the 50 % premium increase that we sought a year ago was insufficient.

With the introduction of the "no fault" system in many states for bodily injury cases as a result of motor accidents, the lawyers who have specialised in this field of damages are increasingly turning their attention to similar cases where claims can be made under product liability policies. Consequently product liability claims are increasing. This new development is accentuated by the present state of the U.S. economy and both industrialists and consumers are making claims against suppliers, manufacturers, etc. which three or four years ago would have been unheard of.

We have a small amount of products liability and are endeavouring to keep our current and future exposure at as low a level as possible.

Workers' compensation business became unprofitable in 1975. Premiums in this class of business are related to insurers' wage and salary bills which were below expectations because of the lack of recovery in the economy generally and the cost of claims increased".

## 1976 (4)

"Substantial progress has been made in achieving rate increases and, together with savings in commission and expenses, underwriting experience improved throughout the year. This improved experience is reflected in all classes except workers' compensation business where further rate increases are still required.

In spite of widespread increases in rates, automobile business remained unprofitable in 1976. Fire results have continued to be profitable following rate increases and a lower level of windstorm losses".

## 1977 (5)

"The insurance industry generally had a profitable year during 1977 and we ourselves benefited increasingly during the year from the effect of the corrective action taken since the latter part of 1975, when a substantial portfolio of unprofitable business was cancelled.

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(3) Commercial Union, Annual Report 1975, p. 7

(4) Commercial Union, Annual Report 1976, p. 7

(5) Commercial Union, Annual Report 1977, p. 6

## Appendix F, 1

The operating ratio on a statutory basis improved from 106.4 % in 1976 to 98.2 % in 1977. The recovery is primarily due to an insistence on higher underwriting standards and success in achieving urgently needed rate increases, especially for motor business which has become profitable. Workers' compensation experience is improving slowly but is still unprofitable and further increases are required. Liability results are much improved, despite continuing large court awards for damages. There were no major hurricanes in 1977, but losses arising from the severe winter adversely affected the results in the first part of the year".

## 1978 (6)

"The general improvement in results throughout the U.S. insurance industry has continued. This was due to a healthier price structure established over the past two years and because there were no major hurricane losses. Except for workers' compensation business, premium rate increases were more difficult to achieve due to the resistance of state regulatory authorities and growing competition. But, with our more selective approach to marketing, underwriting and improved loss control claims experience continued to improve in most classes of business. The operating ratio on a statutory basis was 98.5 %. Bearing in mind that severe storms adversely affected the statutory results, particularly in the early part of the year, and that weather losses generally in spite of the absence of major hurricanes, were the highest for many years, we consider this to be a satisfactory result".

## Royal

## 1973 (7)

"The underwriting result was a loss of £1.8m compared with a profit of £4.8m in 1972 and the statutory operating ratio was 99.9 % compared with 97.1 % in the previous year.

The deterioration in the underwriting result was due mainly to the increase in inflationary pressures which affected both current trading and the level of reserves judged necessary to cover outstanding claims. These inflationary effects were felt particularly in those classes of business where claims are outstanding for some years, such as third party bodily injury and workmen's compensation. At the same time, it should be noted that for these classes of business substantial investment earnings are generated on the funds held to cover the provisions it is necessary to maintain for outstanding claims.

Property business as a whole again produced a satisfactory profit, though experience in the industrial fire business was worse due to a higher than average number of large fires : as against that windstorm losses were somewhat less severe than in 1972.

In dollar terms the premium income in 1973 was 4.7 % higher than that for 1972 but, taking into account inflation, there was no growth in real terms.

This reflects partly the intense competition for certain lines of business and also the avoidance of some business which had become badly underrated. Throughout the year we were faced with difficulty in obtaining premium rates adequate to meet the demands of inflation in the face of the highly competitive conditions prevailing in the market".

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(6) Commercial Union, Annual Report 1978, p. 6.

(7) Royal, Annual Report 1973, p. 6.

## Appendix F, 1.

## 1974 (8)

"The underwriting result was a loss of £27.2m compared with a loss of £1.8m in 1973 and the statutory operating ratio was 108.8 % compared with 99.9 % in the previous year. The low rate of premium growth, 2.3 % in dollar terms, was the result of a deliberately selective process and the number of exposures on our books has been reduced very significantly in some lines.

1974 was undoubtedly the worst year on record for the insurance industry in the United States and it is estimated that the industry as a whole lost \$2.5 billion in 1974 on underwriting. In addition to the effect of inflation and competition that I have already mentioned, there were large losses in April from tornadoes. In general, liability insurance continued to be unprofitable and towards the end of the year increasing claims costs severely affected automobile and property results.

In the face of this adverse turn in our underwriting experience we have introduced remedial measures of a degree of severity well beyond previous programmes which were essentially aimed at improving rate levels and redistributing the portfolio to reduce the proportion of liability business. We are now engaged in a detailed review of the profit potential of all units — large and small — in our United States operation and any unit which does not meet our performance requirements is being discontinued; this is additional to — and not in place of — our longer term plans for redistribution of business by line. We recognise that this may — indeed probably will — involve a contraction in the scale of our United States operation in the short term but we believe the outcome will be a basically stronger business which will then be able to expand vigorously and profitably. It must be added that, while the present measures are aimed at having an early beneficial impact on our results, this cannot be expected to show through in the figures immediately. However, some improvement is expected to become apparent during the course of the year and to become more pronounced if our own action is aided by some reduction of the extreme competitive pressures in the market — of which in certain lines of business there are now some signs — and by some easing in the rate of inflation".

## 1975 (9)

"There was an underwriting loss of £24.2m compared with a loss of £27.2m in 1974, the operating ratio on the United Kingdom accounting basis being 107.1 % compared with 108.8 % in the previous year. This modest reduction in our underwriting loss in the United States needs to be viewed against the background that in 1975 the insurance industry there suffered its worst ever aggregate loss. It is estimated that the underwriting loss for the industry as a whole was in the region of \$4,250m for the year compared with a loss of \$2,500m in 1974, previously the worst year on record.

Premium income from the Group's general business amounted to £301.1m (1974 £278.6m) and in dollar terms the premium growth was restricted to 2.5 %. In effect this means that there was negative growth in real terms, as the increased premiums on existing business — arising through rate increases and higher sums insured on property — accounted for considerably more than the total growth in premium volume. There has been a further significant reduction in the number of our exposures in some lines and, as will be seen from the Marine and Aviation section of this review, we have withdrawn entirely from the writing of non-airline aviation business in the United States.

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(8) Royal, Annual Report 1974, pp. 6-7.

(9) Royal, Annual Report 1975, pp. 8-9.

## Appendix F, 1.

Following the severe remedial measures introduced in recent years there was a substantial reduction in the underwriting losses on our general liability and workmen's compensation business. However, the losses on our automobile business increased sharply. The marked increase in claims costs which was affecting automobile results towards the end of the previous year continued during 1975. This was due not only to much higher repair and medical costs but also to an increased frequency of accidents; the homeowners' sector was also affected by a steep rise in property repair costs. Towards the end of the year, however, there were some signs that the rate of increase in claims costs was beginning to slow down. Substantial premium rate increases have been obtained and more are being sought because we consider that in some areas of the country, especially for personal automobile business, rate levels current at the end of 1975 were still inadequate. The rate increases already introduced began to have effect in the second half of the year and these, together with the further increases now in train, will produce a growing benefit to the results in 1976.

At the end of September the branch operations of our United Kingdom companies were merged into our domestic United States subsidiaries to improve efficiency and secure operating economies. This change will also put us in an even better position to take advantage of the improvement in markets which must surely come and thus to participate more fully in the country's future long-term growth".

## 1976 (10)

"The underwriting result was a loss of £18.1m compared with a loss of £24.2m in 1975. The extent of the improvement is masked by the depreciation of sterling during 1976 and in dollar terms the underwriting loss was reduced from \$53.8m to \$32.5m. A still better guide to the improvement that has taken place is that the operating ratio on the United Kingdom basis in 1976 was 103.4 % compared with 107.1 % in 1975. This result was achieved against a background of improved experience for the United States insurance industry as a whole.

The premium income from the Group's general business amounted to £410.5m (1975 £301.1m). In dollar terms this represented an increase of 10.5 % which was more than accounted for by the improvement in premium levels. The number of our exposures in the major liability lines decreased as intended but the loss of income from this was more than offset by substantial rating increases on the business retained. On property lines there was some modest growth in real terms and we continued to obtain increased premiums on our existing business. In marine and aviation there was a small reduction in premium income due to our withdrawal from the writing of non-airline aviation business which was mentioned in our review of 1975.

Although the underwriting loss on our automobile business, the biggest individual class, was still substantial it was reduced to little more than half the loss we sustained in 1975. Claims frequency increased in the early months but in the remainder of the year it tended to stabilise and this factor, combined with the effect of rate increases, contributed to a gradually improving trend as the year progressed. Indeed, for the business we chose to write there was a substantial improvement but this was partly offset by an increased loss emanating from state pools of substandard risks which no insurer wants but which all are compelled to share. This so-called "involuntary" business represents only about one-eighth of our total personal automobile writings but contributed almost half our underwriting loss.

The marginal loss on our homeowners' business was a substantial improvement over 1975 and this was due to a combination of rate increases and higher sums insured, together with a lower incidence of windstorms.

## Appendix F, 1

Fire business continued to be profitable and commercial multi-peril business, which covers a range of risks under a single policy, produced a break-even result compared with a loss last year and is a line where we achieved some expansion.

Our general liability loss was reduced from the previous year.

The loss on workers' compensation business increased. This class is the most troublesome part of our portfolio at present since inadequate mandatory rate levels exist in many states and the increases which are currently being obtained will not have full effect during 1977.

With the substantial premium rate increases secured during 1976 we now consider that in many states rate levels in many lines of business are at, or near, adequacy and this, together with further increases we expect in 1977, should mean a continuance of improved underwriting performance in the U.S.A. In those states where rate levels continue to be inadequate we shall take further action to control our exposures unless satisfactory rate levels can be obtained".

## 1977 (11)

"The underwriting result in the U.S.A. was a profit of £0.2m compared with a loss of £18.1m in 1976. The operating ratio on the United Kingdom basis was 99.2 % compared with 103.4 % in 1976. The significantly improved result reflects the extensive remedial action we have taken and continue to take.

Premium income from the Group's general business amounted to £461.2m (1976 £410.5m). In dollar terms this represented an increase of 9.2 % but changes in underwriting procedures, including the introduction of 6-monthly instead of annual policies for personal automobile insurance, have retarded the increase in written premiums. Without these factors the increase would have amounted to almost 17 %. The main part of the increase was due to uplifts in rates, together with the effect of higher values insured on property. Real growth was in the region of 5 %.

We further reduced our exposures in the major liability lines but this was masked to some extent by rate increases. Considerable growth was achieved in commercial multi-peril business, covering a range of risks under a single policy and homeowners' business also showed some increase as did some of the smaller speciality lines.

Whilst automobile business, the largest individual class, still showed an underwriting loss, it was little more than half the loss suffered in 1976. There was a substantial improvement in the result in personal automobile business which was profitable as regards the business which we underwrite ourselves, though this profit was outweighed by a loss arising from the "involuntary" business — i.e. the business from the state pools of substandard risks which we are obliged to share with all other companies writing automobile business in the states concerned. This "involuntary" business constitutes about one-sixth of our total personal automobile premiums. We also suffered a loss on commercial automobile business which was the one major line where our underwriting result was worse than in 1976. Corrective underwriting action is well in hand.

There was a small loss on our homeowners' business which was more than accounted for by the severe weather conditions experienced in the first quarter.

There was again a loss on workers' compensation business, but less than in 1976. Inadequate mandatory rate levels still exist in some states but, with the benefit of previous rate increases continuing to come through, this line again showed improvement. General liability also produced a smaller loss than in 1976.



## Appendix F, 1

Commercial multi-peril and fire business showed satisfactory profits due partly to a relatively low level of large fires. In addition there were only moderate losses from natural catastrophes.

With the further rate increases introduced during 1977 we are looking for continued improvement in our underwriting performance in 1978".

## 1978 (12)

There was an underwriting profit from our United States operations of £10.5m (1977 £0.2m). The operating ratio on the United Kingdom basis was 96.8 % (1977 99.2 %); on the United States statutory basis it was 96.3 % (1977 99.8 %).

Premium income from the Group's general business amounted to £469.7m (1977 £461.2m); in dollar terms the increase was 11.7 %. Whilst there was real growth in some lines, particularly in commercial multi-peril which covers a range of risks under one policy, the increase was in the main due to the effects of higher premium rates established in 1977.

Exposures in some other lines, such as general liability and automobile, were further reduced.

An unwelcome feature was the further increase in involuntary business which arises principally in the automobile line and consists of substandard risks written through state pools in which we are obliged to share with all other companies writing this class in the states concerned. The involuntary business again resulted in a loss which outweighed a modest profit earned on the balance of the automobile business. In the light of the generally more profitable situation overall in the industry there has been a reluctance on the part of the regulatory authorities in some states to approve rate increases needed for personal automobile business and the inevitable consequence has been that we have had to restrict volume of this business in certain areas.

Homeowners' business produced an underwriting profit despite the impact of particularly heavy claims for weather damage in the early part of the year.

Among the commercial lines, multi-peril business was outstanding for its profitability as well as its growth and we are among the leading writers of this business. Despite severe competition in the market in some areas and further growth in this line. Good profits were also earned on fire business. Commercial automobile business again produced a loss but at a considerably lower level than in 1977, following further corrective action taken during the year.

Workers' compensation (where the business is also affected by involuntary pools) showed a reduced loss and the gradual improvement in results reflects the remedial underwriting action taken in recent years. General liability business, which for years has been unprofitable and has been subject to the most stringent limitation of exposures, yielded a marginal underwriting profit in 1978.

The return to a satisfactory level of underwriting profitability in 1978 is the culmination of the policy of refining and realigning our portfolio that we have been pursuing for the last five years or so. During that time we accepted, as a consequence of our actions, a decline in our market share, which in turn reduced the need to retain a significant proportion of our earnings in the U.S.A. and to a substantial degree these were remitted to the United Kingdom by way of dividends. By 1978, the success of our policy enables us to look for more growth and so to arrest the decline in our market share. This involved a reassessment of the financial resources needed to ensure that growth was amply supported by locally available funds and accordingly we remitted \$60m back to the U.S.A. as a contribution to the free reserves of our subsidiary companies there".

## Appendix F, 1

## General Accident

## 1973 (13)

"Our rate of premium growth was impeded as a result of extreme competition for business as a determination on our part not to become involved in the indiscriminate rate-cutting which has recently been an undesirable feature of the market. Nevertheless, I am pleased to report that we again produced results in the United States which compare most favourably with other stock companies in the industry in general. We did extremely well to maintain a profitable operation (6.6 % operating margin) albeit that for the third year running we were assisted by an absence of unusually large weather catastrophes. However, at the time of going to press, we have just received preliminary news of the devastating tornadoes which occurred in several states with tragic loss of life and massive damage to property.

Extreme climatic losses are, however, only one among several factors which can severely affect our experience as insurers and all of which are outwith our direct control. Energy crises, inflation and lack of industrial growth are among the others which could be named.

We move into 1974 with increasing loss registrations in all important accounts. Expenses are inevitably increasing without the off-setting of upward rating adjustments or business growth. No Fault legislation continues to be extended with its consequent reduction in automobile premium rates and with returns of premium being mandated on unexpired risks".

## 1974 (14)

"We had an underwriting loss in 1974 for the first time since 1969; it amounted to £2m against an underwriting profit in 1973 of about £8m. However, investment income increased by some £2m and off-set the underwriting loss. The net effect is a profit before tax in the United States of £13.5m against £21.2m in 1973. It cannot be said that there was in 1974 any single incident of the dimension of "Betsy" in 1965, but there has been an accumulation of categorised catastrophe losses — many unreported in the United Kingdom — costing 2 % of our premium income in this territory.

The virtual absence of premium growth reflects no more than the rate inadequacy which exists in the market and the continuation of our traditionally conservative underwriting policy. General Accident has not participated in the industry race for premium income.

The adverse experience of the last quarter of 1974 is unfortunately being carried through into 1975 — rate increases are hard to achieve and it would be foolish at this stage to anticipate any improvement in our experience in 1975. Furthermore, with a deteriorating underwriting experience a reduction in cash flow is to be expected, while if interest rates continue to fall the "buffer" of investment income may not be so effective as in 1974".

## 1975 (15)

"The industry's experience generally in 1975 in the United States was the worst on record; although this was so for us it may be comforting to know that the General Accident's performance was better than average. Our operations produced an underwriting loss of £11.6m as against a loss of £2m in 1974. After taking into account increased investment earnings we were able to produce a profit before tax of £7.3m against £13.5m in 1974.

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(13) General Accident, Address by the Chairman 1973, p. 5.

(14) General Accident, Annual Report 1974, p. 25.

(15) General Accident, Annual Report 1975, p. 24.



## Appendix F, 1

Our underwriting result was not influenced by any major losses and arose mainly in the motor and liability accounts, more particularly in the latter. Fortunately towards the end of 1975 there have been some rating increases long delayed and inadequate in many instances but welcome none the less in so far as they should produce a reasonable growth in premium volume in 1976".

## 1976 (16)

"Following the adverse underwriting experience of 1975 and a difficult first quarter, some improvement was realised during the year, principally due to long-awaited rate increases which began to flow through the account. Involuntary automobile and general liability business however were heavy loss producers. Fire business also was less profitable and multiple line risks produced a loss.

Dollar premium income as a whole increased by 19 % and handling expenses were reduced by three-quarters of a point to 28.8 % of premiums.

The statutory underwriting loss of \$24m was virtually unchanged although, when related to the higher premium income, the operating ratio fell by two points to 104.2 %. However, the underwriting loss in our group accounts, reflecting the fall in the value of sterling and other adjustments, was slightly higher at £12.0m against £11.6m in 1975.

Conversely investment income, which also benefited from the higher value of the dollar, increased by almost £9m, and consequently the pre-tax profit was £15.4m compared with £6.9m for the previous year. In spite of the substantial recovery in 1976 the year still produced the industry's third worst underwriting experience ever. Major underwriting problems remain to be overcome, particularly in liability business and in automobile assigned risks, but the changed political scene may also bring its problems which make predictions on the outcome of 1977 particularly hazardous".

## 1977 (17)

"Another step in the direction of profitable underwriting was recorded in 1977. There was steady progress throughout the year, which ended with an improvement of over four points in our operating ratio on a premium income which was up by 18 % to \$482m. The statutory underwriting loss was reduced from \$24m to \$8.5m.

Both the automobile and the property accounts were profitable. Although the liability part of our portfolio continued to be difficult, there was a significant improvement in the result.

One of our most difficult areas is what is known as involuntary business.

This is business assigned to us by the authorities on the basis of our share of the market where the applicant for the most part has been unable to find insurance readily. Our loss on this type of business increased during the year and indeed made the difference to us between a profit and a loss on our U.S.A. account".

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(16) General Accident, Annual Report 1976, p. 26.

(17) General Accident, Annual Report 1977, pp. 25-26.

## Appendix F, 1

## 1978 (18)

"1978 was a very much better year for us in America. Total premium income advanced from \$482m to \$536m, an increase of over 11%, and the result of our underwriting was 3 points better than in the previous year.

Automobile underwriting produced a profit and the same applied to property insurance. The area of our operations which gives most cause for concern is the workers' compensation account where results continue to be very bad.

It is again worthy of mention that in the U.S. the compulsory participation by us in the acceptance of risks allocated on a pool basis — frequently known as involuntary business — plays an important part in our overall results. The imposition of such risks placed a considerable burden on our figures, which but for that would have been even better than those we were able to publish".

## UNDERWRITING RESULTS IN CANADA

### Extracts from the Annual Reports of Royal, Commercial Union and General Accident

#### Royal

##### 1973 (1)

"Premium income from general insurance business in Canada increased by 14.2 % to £66.2m. The underwriting result was a loss of £3.7m compared with a profit of £0.4m in 1972.

The automobile account, which comprises over half the total portfolio and had been profitable for the past few years, showed an underwriting loss.

Against a background of rising inflation of claims costs the deferment under political pressures of premium rate increases from February to August was a major factor in the deterioration in this class.

Other accident business and property business also showed underwriting losses.

The downturn in the Canadian market was mainly due to the fact that, despite the adverse implication of an increase in the rate of inflation from 6 % to 10 %, there was a strong upsurge in competition, largely by companies seeking to establish a better base in anticipation of the loss of automobile business in British Columbia which was taken over by the Provincial Government in March 1974".

##### 1974 (2)

"Operating conditions in this territory remained very difficult throughout the year and the underwriting loss increased from £3.7m to £6.6m.

Despite the loss of automobile business in British Columbia, which was nationalised by the provincial government in March 1974, premiums rose by 21.1 % to £80.2m.

Much of the increase in premium income was a result of higher premium rates but it also reflected pressures to raise sums insured on property in line with rising values. Such was the effect of competition, however, particularly in the commercial property sector, that a significant amount of business we had written for many years was placed elsewhere at rates which we regarded as totally inadequate. However, many of the other major insurance companies, who like ourselves have suffered serious underwriting losses on this business, are also now introducing substantial increases in premium rates.

The Automobile account again produced an underwriting loss. However, rates were raised in July and again early in 1975 and the effect of these increases should be to restore this major sector of our Canadian business to profitability in due course. The Casualty account result also worsened, the deterioration being largely attributable to an increased incidence of large claims, particularly towards the end of the year.

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(1) Royal, Annual Report 1973, p. 8.

(2) Royal, Annual Report 1974, pp. 8-9.

## Appendix F, 2

Industry sources anticipate that the total underwriting loss for the Canadian market could be as high as \$300m. In a more rational market this should lead to some limitation in capacity and to a consequent easing of competitive pressures. Whilst it is too early to say that this is happening, the combination of rating increases and some lessening of competition should help to bring about an improvement in the underwriting situation".

## 1975 (3)

"The underwriting loss of £5.0m showed a modest improvement on the £6.6m loss for 1974; in terms of operating ratios the improvement was still more evident, with the 1975 ratio of 102.9 % comparing with that of 108.0 % in 1974. The improvement was achieved despite a sharply adverse result in December when the weather conditions in many parts of the country — but particularly in Southern Ontario, where about a third of the Group's Canadian business is conducted — were the worst within this century and caused an exceptional increase in the number of claims in that month. For the year as a whole the automobile and the commercial property lines, whilst still producing underwriting losses, showed a considerable improvement over the previous year but this improvement was partially offset by a deterioration in the personal property sector.

Withdrawal of a number of United States and other foreign companies from the Canadian market at the end of 1974 and a policy of severely restricted underwriting adopted by others caused a capacity strain in the general business market. As the market leader, we decided that we should maintain our capacity and should even extend it, provided we were able to increase rates to the higher levels which we considered necessary. In the event we were able to apply substantial rating increases in many classes of business and also to obtain higher premiums on property risks through the updating of sums insured to reflect current market values. The growth in premium income, which rose from £80.2m in 1974 to £125.4m last year, amounted to 54 % in Canadian currency and nearly two-thirds of this increase was due to the measures taken to obtain higher premium levels on existing business, with the remainder representing real growth. The effect of the increases in 1975 in premium rates and sums insured will continue in considerable measure in the current year".

## 1976 (4)

"There was an underwriting loss of £2.2m compared with a loss of £5.0m in 1975. Expressed in terms of operating ratio the improvement was more marked, the 1976 ratio being 99.9 % compared with 102.9 % in 1975. The improvement was achieved notwithstanding even worse weather conditions, and consequent claims, in December 1976 than in December 1975. In addition the results were affected by exceptional storms in the Maritime Provinces in February 1976.

Total premium income rose from £125.4m in 1975 to £225.0m in 1976. In dollar terms the increase amounted to 41.4 %, approximately half coming from real growth in business, with the remainder arising from increases in premium rates and higher sums insured to reflect current values.

Homeowners' business showed a higher underwriting loss than in 1975. While the deterioration was mainly due to the exceptional storm in the Maritimes in the early part of the year, it was disappointing that there was no underlying improvement in the results

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(3) Royal, Annual Report 1975, p. 10.

(4) Royal, Annual Report 1976, pp. 10-11.

## Appendix F, 2

from this class and this was due in some measure to the action of the Anti-Inflation Board in delaying for several months the introduction of necessary rate increases. Nevertheless, apart from the December weather claims, there has been some sign in more recent months of an improving trend. Action has been taken which should lead to a significant improvement in results in the next year or two.

Automobile insurance accounts for well over half our premium income in Canada. The underwriting loss sustained on this class in 1975 was transformed into a modest profit in 1976, largely because of increases in premium rates.

Commercial casualty business had another disappointing year, with the liability part proving particularly unsatisfactory, and further stringent underwriting action is being taken to correct the position".

## 1977 (5)

"There was an underwriting profit of £7.2m compared with a loss of £2.2m in 1976. The operating ratio improved from 99.9 % to 96.1 %.

Premium income rose from £225.0m in 1976 to £260.4m in 1977. In dollar terms the increase was some 21 %, a considerable proportion of this coming from premium rate increases and from higher sums insured on property. The improved underwriting result reflects the action taken over the previous two or three years to restore an economic level of premium rates over the business as a whole. As the leading general insurance group in the Canadian market we were in the forefront of this effort to improve market conditions.

It is regrettable that, having restored underwriting to profitability, we are required under the controls on profit margins laid down by the Anti-Inflation Board to return part of our operating profit to policyholders. The amount to be returned in 1978, in prospect of the year 1977, is some £4.7m with the net cost after tax relief being £2.5m. We do not consider the profits we earned in 1977 to be excessive; none the less "excess revenue" arises because our margins were considerably higher than those in the base period with which, under the regulations, they have to be compared (subject to our being allowed to earn a margin of 4 % of turnover — broadly defined as being written premiums plus investment income on insurance funds); unfortunately this base period was one in which underwriting was unprofitable. The Anti-Inflation Regulations will continue to apply to our business during 1978 and we shall continue to make strong representations to the authorities to raise further the permitted margin.

Apart altogether from the impact of the Anti-Inflation Regulation we expect our business to grow more slowly in 1978 than in the past two years. This is in accordance with our expansion plans whereby in continuing to provide capacity in a then difficult market in 1975 and 1976 we substantially increased our market share in the expectation that the improved underlying conditions which we were seeking to bring about would in turn lead to an easing of the capacity problems in the market. This is now happening and with it we see some degree of increased competition as is only to be expected. A further restraint on our growth of premium income in 1978 will be that our automobile personal injury business in the Province of Quebec was nationalized by the provincial government with effect from 1st March 1978. We very much regret this loss of business in the Province of Quebec but it is a relatively modest proportion of our total business in the province and we are fully organized to conduct what we hope will continue to be a thriving operation there".

## Appendix F, 2

### 1978 (6)

"There was an underwriting profit of £2.4m (1977 £7.2m). The operating ratio was 98.7 % (1977 96.1 %). We believe that our operations will not have generated any excess revenue under the Anti-Inflation Board regulations (which will no longer apply in 1979).

Premium income was £216.7m as compared with £260.4m in 1977. Much of this decline was due to the movement in exchange rates and in dollar terms premiums were down by only 2.0 %. Two factors more than accounted for the decrease : first the nationalization of automobile bodily injury business in the Province of Quebec and secondly a temporary renewal discount, applied for the first seven months of the year on personal automobile premiums. This discount was introduced in recognition of the good experience on this line in 1977 and seemed to us preferable to a rate reduction as we believed that good experience was a temporary factor due to a lower claims frequency which we did not expect to be sustained. In the event frequency rose during the year to a more normal level and so the discount was discontinued at the end of July 1978.

The concern of other insurers to increase their market share led to intense competition in many lines of business — including automobile notwithstanding the rise in claims frequency referred to above. Householders' business suffered an underwriting loss which reflected the severe weather early in the year and an increase in crime losses. The automobile account produced a profit but at a much lower level than in 1977 : the earlier onset of winter weather, particularly in Ontario, gave rise to an exceptionally high number of accidents, many of them serious. Commercial property business was profitable despite an unusual number of large fires towards the end of the year".

## Commercial Union

### 1973 (7)

"The underwriting result was a loss of £0.4m (1972 loss £0.7m). This improvement is due to the better experience in our Fire business, for which we obtained higher rates, and despite some loss of business in the face of competition. Motor business, on the other hand, was unprofitable due to inadequate rates and the effect of inflation on claim costs".

### 1974 (8)

"Canadian business shows an underwriting loss of £2.4m. Industrial fire losses throughout Canada increased very substantially in the first half of 1974, but substantial rate increases are being applied in 1975. Motor experience was adversely affected by higher claims in British Columbia prior to its nationalization on 1st March, 1974".

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(6) Royal, Annual Report, 1978, pp. 11-12.

(7) Commercial Union, Annual Report 1973, p. 7.

(8) Commercial Union, Annual Report 1974, p. 7.

## Appendix F, 2

## 1975 (9)

"There was some reduction in the underwriting loss on our Canadian business from £2.4m in 1974 to £1.9m in 1975. This reflects higher fire premium rates and some reduction in wastage. Motor business was slightly better.

It has been our policy to domesticate major overseas branches as and when circumstances were propitious. During 1975 the Group's branches were transferred to new wholly-owned Canadian companies".

## 1976 (10)

The Canadian underwriting results show some further improvement over last year with a profit of £0.3m.

During the latter part of 1975 and in 1976 we cancelled nearly 30 % of our agencies to improve underwriting results. This cut-back has moderated the recent rapid growth in premiums resulting from rate increases and new business arising as a result of the withdrawal by some companies from this market after several unprofitable years. Householders' business remains unprofitable, but this is partly due to the severe windstorms which hit the Maritime Provinces at the beginning of February 1976. Overall claims experience is better than last year, particularly in motor which represents nearly 60 % of our business".

## 1977 (11)

"The Canadian underwriting results, as reported, have changed little from last year and showed a profit of £0.1m. Both the motor and fire classes were profitable but liability business continued to make a loss. Provision has been made for the estimated refund of "excess revenue" to policyholders required under the regulation of the Anti-Inflation Board".

## 1978 (12)

"A small underwriting profit of £0.1m (1977 £0.1m) was again made in Canada. Investment income totalled £8.2m compared with £8.5m in 1977, although after allowing for the effect of changes in rates of exchange, there was a growth of approximately 12 %.

Political and economic uncertainty in Canada and the constraints imposed by the Anti-Inflation Board provided a difficult environment for the insurance industry during 1978. In the province of Quebec a major part of the motor portfolio was taken over by the provincial government and this loss of business by the industry and the general adequacy of rating levels led to intense competition for new business. During the year, as required by the Anti-Inflation Board, we refunded approximately £0.5m to certain private motor policyholders in respect of so-called "excess revenue" earned during 1977, provision for which had been made in the accounts for that year. Bearing these factors in mind and the loss of business in Quebec of approximately £5m, the premium growth for the year of some 3 % in local currency was most satisfactory. Fire results were profitable, the liability class made a loss and motor results were

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( 9) Commercial Union, Annual Report 1975, p. 9.

(10) Commercial Union, Annual Report 1976, pp. 7-8.

(11) Commercial Union, Annual Report 1977, p. 7.

(12) Commercial Union, Annual Report 1978, p. 7.



## Appendix F, 2

marginal. The Anti-Inflation Board was replaced by a monitoring agency in 1979 and we estimate that there will be no material "excess revenue" to be refunded for 1978".

### General Accident

#### 1973 (13)

"There was some improvement in our results, although trading conditions are still difficult and likely to remain so in the foreseeable future. The increasing encroachment of Government into the Industry's activities demands an urgent re-appraisal of the organization of the insurance market in Canada. There are signs that this is taking place, which it is hoped may lead to less reckless competition".

#### 1974 (14)

"There has been a further deterioration in our results during what has been a very difficult year for all companies in the market.

The encroachment of the Government of British Columbia into the area of private insurance has increased the tendency of some companies to endeavour to maintain premium volume without regard to rate adequacy. Others have preferred to withdraw from the market in British Columbia completely; we have ourselves taken over there the non-motor portfolios of the Perth Mutual and of the Economical Mutual with effect from December 1974.

As from January 1975 the local branch operations in Canada of the General Accident and of the Yorkshire were absorbed by our principal subsidiary, the General Accident Assurance Company of Canada".

#### 1975 (15)

"This continues to be a difficult area in which to earn underwriting profits, but rating increases and a greater cohesion in the market should assist in reducing underwriting losses as should the reduction in capacity following the withdrawal of some companies from the market and the difficulties facing the Insurance Corporation of British Columbia. It is in fact anticipated that, following the election of the Social Credit Party in British Columbia, the activities of the Insurance Corporation of British Columbia may well be restricted".

#### 1976 (16)

"After the many problems of recent years it is very encouraging to report a considerably better trading result with an underwriting account which has improved to a virtual break-even situation".

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(13) General Accident, Annual Report 1973, p. 5.

(14) General Accident, Annual Report 1974, p. 25.

(15) General Accident, Annual Report 1975, pp. 24-25.

(16) General Accident, Annual Report 1976, p. 26.



## Appendix F, 2

## 1977 (17)

"The improving trend reported last year has continued and I am pleased to report an underwriting profit. The relaxation of the Anti-Inflation Board controls is welcomed although these are expected to continue at a revised level during 1978. In Quebec, the Provincial Government took over the bodily injury portion of motor insurance liability from 1st March, 1978".

## 1978 (18)

"Our Canadian operations made an underwriting profit for the second successive year. There was a relatively small decrease in overall income which was considered satisfactory bearing in mind the competitive market and the fact that in the Province of Quebec the Government took over the bodily injury portion of automobile insurance from the 1st March, 1978".

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(17) General Accident, Annual Report 1977, p. 26.

(18) General Accident, Annual Report 1978, p. 25.

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